(15)

Supreme Court, U.S.
FILED
JUN 26 2003
OFFICE OF THE CLERK

No. 02-1196

In the Supreme Court of the United States

SECURITIES AND EXCHANGE COMMISSION, PETITIONER

v.

CHARLES E. EDWARDS

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE ELEVENTH CIRCUIT

JOINT APPENDIX
(VOLUME II)

THEODORE B. OLSON*
Solicitor General
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

**Counsel of Record*
for Petitioner

MICHAEL K. WOLENSKY*
ETHAN H. COHEN
LAURA J. SAURIOL
KUTAK ROCK LLP
225 Peachtree Street, N.E.
Suite 2100
Atlanta, GA 30303-1731
(404) 222-4600

**Counsel of Record*
for Respondents

PETITION FOR WRIT OF CERTIORARI FILED: Feb. 13, 2003
CERTIORARI GRANTED: Apr. 21, 2003

137 pp

TABLE OF CONTENTS

	Page
Docket Entries:	
United States Court of Appeals for the Eleventh Circuit	1
United States District Court for the Northern District of Georgia	3
Complaint	6
Answer	24
Transcript of Preliminary Injunction Proceedings	35
Exhibits in support of SEC's motion for prelimary relief:	
Exhibit 1	67
Exhibit 6	78
Exhibit 7	80
Exhibit 15	94
Exhibit 16	110
Exhibit 17	111
Exhibit 18	122
VOLUME II	
Exhibit 20	149
Exhibit 21	198
Exhibit 22	223
Exhibit 23	229
Exhibit 24	231
Exhibit 25	239
Declaration of Charles E. Edwards	242
Exhibit 2 to Edwards' declaration	269
Declaration of Sheldon E. Friedman	280
Letter to Beverly Slater	283

[PLAINTIFF'S EXHIBIT 20]

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

File No. A-02502

IN THE MATTER OF ETS PAYPHONES, INC.

HEARING

TRANSCRIPT

APPEARANCES:

On behalf of the Securities and Exchange Commission

BARRY LAKAS, Accountant
ROBET LOUGH, Attorney
JAMES LONG, Attorney
Enforcement Division
Securities and Exchange Commission
Suite 1000, 3475 Lenox Road
Atlanta, Georgia 30326

On behalf of the Witness

W. SCOTT SORRELS, Attorney
WILLIAM B. SHEARER, JR., Attorney
POWELL, GOLDSTEIN, FRAZER & MURPHY
191 Peachtree Street, N.E.
Atlanta, Georgia 30303

* * * * *

[3]

Whereupon,

CHARLES E. EDWARDS

appeared as a witness herein, and having been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. LAKAS:

* * * * *

[7]

Q. Have you ever testified in an investigation by the Commission or its staff or any other federal agency, any state agency, any stock exchange or the NASD?

A. Only an informal investigation here at this office.

Q. When was that?

A. 1995.

Q. Was it an investigation at the time?

MR. SORRELS: I don't think that was testimony. I think it was an interview that Larry Grant was involved in.

BY MR. LAKAS:

Q. Did he call you in or did you contact him for information?

A. No, he called us in.

Q. What became of that?

A. There was no action per se. He did make two recommendations to us which we fully complied with. One was to get out—at that time, I was in both marketing and leasing and he told me to either get out of leasing or marketing and to give more control to our phone owner, which we in fact did, where they can take it back at any time.

Q. Was there a court reporter at this?

A. No, sir, just my attorney and Mr. Grant.

Q. And it was related to ETS Payphones?

A. Yes, sir.

* * * * *

[13]

Q. Okay. So you started ETS in what year?

A. Six years ago this month. So that would be 1994.

Q. 1994?

A. Right.

Q. Now you said something about Inter-Met?

A. Inter-Net was a company I had—that I started when I left Global. It sold—we were a switchless reseller of long distance and prepaid calling cards. That's how ETS started. We were selling payphones through that company also. When Mr. Grant investigated us, Inter-Net was selling the payphones and ETS was the payphone company side.

Q. I'm sorry, Inter-Net was marketing—selling the payphones?

A. Yes, sir.

Q. What was ETS doing?

A. They were the payphone company.

Q. Oh, okay. They were actually supplying the payphones?

A. Yes, and managing the payphones.

* * * * *

[16]

Q. Okay. What's your financial—do you have more than five percent stock ownership in any company right now?

A. Yes, sir.

Q. What would that be?

A. ETS. Twin Leaf, Inc.

MR. SORRELS: Just any company, Barry, or public companies?

MR. LAKAS: Any company. Well this asks for five percent stock ownership, but any financial participation. I guess he means a private company. If it's a corporation, he probably owned the stock anyway.

THE WITNESS: Right.

BY MR. LAKAS:

Q. So that's it, ETS and Twin Leaf, Inc.?

A. That I'm directly ownership in, yes. I now have an LLC that I have ownership in called Pleasant Hills.

Q. Anything else?

A. No, sir.

Q. What does Twin Leaf, Inc. do?

A. It's a holding company for a number of businesses.

Q. And what type of businesses are they in?

A. Mainly telecommunications and interior duct work cleaning.

Q. Where is it located?

A. Twin Leaf?

[17]

Q. Yeah.

A. At my address.

Q. Home or business?

A. Business address.

Q. How many employees does it have?

A. I think we have about eight or nine.

Q. It's a holding company in telecommunications and does duct cleaning?

A. Yeah, one of the subsidiaries does, yes, sir.

Q. Now what type of telecommunications does it do?

A. It has a company called Legends Communications, which is a full IXC carrier such as AT&T, MCI or Sprint. It's certified in 49 states for long distance and prepaid calling cards, and is certified as a CLEC in three states, also.

Q. Is it affiliated with ETS in any way?

A. Yes. It carries ETS' zero plus—I mean one plus traffic and prepaid calling card traffic.

Q. What about Pleasant Hills, where is that located?

A. In Duluth.

Q. The same address?

A. No, sir, it's—I don't know the exact—well, I'll back up on that. It would be—the official address

would be the same as Twin Leaf. We have a building, that's what that is.

[18]

Q. It's in the same building as the Oakbrook Parkway?

A. No, sir.

Q. Do you have a separate—

A. It's a separate building.

Q. A separate building, okay. Oh, I'm sorry, Twin Leaf and Pleasant Hill are in the same building?

A. Yes, sir.

Q. And what's their address?

A. The one I looked in my pocket and gave you.

Q. I guess I'm a little lost. I thought you said ETS was at Oakbrook Parkway.

A. No, sir, no, sir. ETS is at 1490 West Fork Drive. I'm not an ETS employee per se.

Q. Okay. So when I asked for your business address—what's Oakbrook Parkway?

A. That's where Twin Leaf—and that's the company I work for, and that's where my office is at.

Q. Okay. So what's your position with ETS?

A. I am the CEO.

Q. Okay. But where is most of your time spent?

A. It's about 50/50 in ETS' address, which is in Lithia Springs, Georgia and the Oakbrook office.

Q. Okay. Now I've got you. What does Pleasant Hills do?

A. It only owns the building.

[19]

Q. Okay. But that's the LLC?

A. Yes, sir.

Q. Are you doing that for tax purposes?

A. For an investment.

* * * * *

[30]

Q. While I'm on that train of thought, why don't we go into—I still want to know how you got into this. But while we're on this subject, ETS of today, how many employees do you have?

A. ETS today, we have a little over 400 employees. We operate out of 28 offices in the United States. We have phones in 38 states. We have one in Canada and we're in the Virgin Islands.

* * * * *

[31]

Q. Can you describe the corporate structure now? You say you have a department that locates phones?

A. We are the—either the second or third largest payphone company in the United States today. We're the largest independently owned. The other two in there some place—the largest one is a public company and there's one pretty close to our size that's a public company. We have a—I'm the president and CEO of the company. I have a chief operating officer, a—

Q. Who is the chief operating officer?

A. My son Jason Edwards. I have a CFO, Walter Kadalka. I have legal counsel, John Wagner.

Q. He's in-house legal counsel?

A. Yes, sir. And they work mainly on location disputes and acquisition contracts and all. I'm trying to remember what else that reports direct to me. I have the Leasing Department, which is Mary Spencer. That would be the four departments that report direct to me.

Q. The Leasing Department?

A. They work direct with the phone owners and the leasing and all. We've got, I think, 12 or 13 people that work in that department.

[32]

Q. The locator group, how many people do you have in there?

A. The locator is the marketing group, which would be under operations. We have—I would say nationwide probably 25-30.

Q. So their business is just—their role is to just go out and find payphone locations?

A. Right. Well, I've got one portion of them that do nothing but work with convenience store chains. I have two gentlemen that do that that are employees, and one subcontractor, because we have focused on convenience stores because of all the changes that's happened in our industry. Then the other sales people, out of all the different operations, their job is to find new locations for our phones that are not profitable so we can put them in a new location, hopefully to make them more profitable. And we try to roll 10 percent of our phones each year, the bottom 10 percent.

Q. Do these locator people report to your son who is the chief operating officer?

A. Right.

Q. Okay, let's go back. You say in 1994 and 1995 you basically were just purchasing payphones. You say you started going into I guess this—what do you call it, the leasing program in 1996?

A. 1996.

[33]

Q. How did all of that start?

A. Well, I had looked at ways to get into market payphones. Back then, you could not go and knock on the bank and borrow money to start a payphone company because they wouldn't loan any money on an outside piece of equipment that's hung outside. And so we looked at this as a method where we could have equipment that we could lease and build a payphone company with the ultimate goal of owning all the equipment ourselves.

Q. Who came up with this concept?

A. I did.

Q. Did you hear about it from any other company doing it?

A. I had an acquaintance in Tennessee that told me about a company that had done it.

Q. A payphone company?

A. I don't know—they were a marketing company. I don't know whether they were a payphone company or not. They were marketing payphones, but I don't know whether they were a payphone company themselves.

Q. They were marketing payphones. When you say marketing, does that mean selling there?

A. Yes, sir, selling payphones.

Q. What was the name of that company?

A. I believe it was Amtel. I'm not for sure on that.

[34]

Q. So go into your concept. What was your concept? You say you couldn't get loans from the bank—in other words, you wanted financing to purchase a lot of payphones, is that correct?

A. I guess you could say it that way. I wanted payphones is the ultimate goal I wanted because it was a very profitable business at that time. Your coins was very good, your long distance was extremely good. This was before the days of the 1-800 dial-around and all the other changes that's happened. We looked at a method to do that equipment and be able to sell the equipment to individuals and then lease the equipment from them on a lease payment.

Q. Did you try—did you approach any banks before you—

A. I talked to a couple of banks, yes, sir.

Q. And they said no financing?

A. On the payphones, none. Now since that time there has been a couple of banks that have loaned money on payphones.

Q. So what was your initial idea, just sell these payphones to individuals?

A. Inter-Net sales people sold the payphones to individuals, and ETS, if they chose to, leased them from them or they serviced them for them.

Q. So you came up with this concept of leasing even [35] before you sold the first payphone to any individuals or corporations or investors?

A. Yes.

Q. Okay. In 1996, approximately how many payphones did—you say it was Inter-Net?

A. Inter-Net had sold approximately 220 payphones at that time.

Q. That was in '94 and '95?

A. Correct.

Q. How about when you came up with this concept in '96?

A. No, the concept, I came up with in '94.

Q. Oh, the leasing of the payphones?

A. Yes, but I didn't really take off with it—well actually, we did our first lease in 1995, because we are six years—in '94, because we did our first lease in October 1994.

* * * * *

[36]

Q. And then in 1995 when I had the investigation with Mr. Grant, that's when he said for me—you know, suggested we either get out of marketing or get out of leasing. So we chose to get totally out of marketing. That's when we went to independent marketing groups away from Inter-Net or ETS or anybody.

Q. Okay. So ETS was actually selling payphones, though?

A. No, sir.

Q. Well, I mean in '94 and '95 before you spoke with Mr. Grant.

A. No, ETS has never sold a payphone. Inter-Net sold [37] the payphones.

Q. Okay. Inter-Net sold the payphones.

A. And ETS leased the payphones.

Q. Okay. Well, let's go into—did you come up with the concept of a person who purchases a payphone can either manage the payphone itself, have limited management or do the lease program? Did you come up with that concept?

A. Yes, sir.

Q. Okay. Inter-Net sells the payphones. Did they basically just say that ETS was the sole entity that would lease the payphones?

A. At that time we were the sole entity that would lease the payphone. Now they could choose to put it up themselves and manage it themselves if they wanted to.

Q. Of this initial 220 people, did they all go for this leasing program? Did they all subscribe to the leasing program?

A. I'm trying to remember when my first option—at that time we only had two options, and that was the option of buying a phone and putting it in yourself. I think in the first two years we did have two people that bought that way. But then—and the 220 would be the ones that were leased phones.

Q. Okay. Now the marketing tools that you used, what was told to the individuals or investors who purchased a [38] payphone?

A. Now you're talking about which time frame?

Q. '94 and '95.

A. They were told about the industry. They were given the option what to do with their payphone. If they leased it, they got a $75 a month lease payment that was for five years, and then at that time there was an option to renew it for another five years.

Q. Were they told at that time that at the end of five years they could get their money back for the purchase of the payphone?

A. Yes, sir. They had the option to sell the payphone back to us if they chose, or they could keep it themselves if they chose.

Q. At the end of five years?

A. Yeah—well they could get their phone any time they wanted.

Q. They could also get their money back any time they wanted?

A. Well when Mr.—after my interview with Mr. Grant, that's when we basically put in the fact that they could request to sell us the phone at any time with no penalty whatsoever. We had a 180-day window in which to liquidate the payphone.

Q. And that would be for the full cost of what they [39] purchased the payphone for?

A. Correct.

Q. And what were they renting for in 1994 and '95?

A. They were at 4,500 and 5,000.

Q. And you said you were purchasing your payphones through—where were you purchasing the payphones from?

A. Well Johnny was actually purchasing the payphones. They were either coming out of Becktel or—

Q. Becktel or Atlantic Marketing?

A. Right—North Atlantic Marketing.

Q. Oh, Atlanta Marketing?

A. No, North Atlantic Marketing.

Q. North Atlantic Marketing?

A. Yes, sir.

Q. Okay. And how much were you paying for the payphones themselves, $3,000 approximately?

A. Correct. I think we did our first acquisition of payphones in—we bought a payphone company in Daytona Beach I believe in—it was either '95 or '96 we bought 47 payphones there. It had to be in '95 because Johnny was still servicing the payphones.

Q. I guess what I'm curious about is, it cost you $3,000 approximately to put a payphone at a certain site.

A. Correct.

Q. How could you promise the full amount back?

[40]

A. Well the payphone and location backs up every lease. The equipment with the income stream is the value they've got there. That backs up every lease,

because some phones based on the income stream is worth a lot more than what the people paid for them.

Q. Yeah, but some are probably worth less, aren't they?

A. I would say yes.

Q. I would think of a phone as a depreciating—I mean, the thing still needs—what is the life of a phone?

A. Fifteen years.

Q. Those things could last 15 years?

A. Yes, sir.

Q. What about new technology? I thought things come out, like smart phones?

A. We continually upgrade them. We started with smart phones from the very first, but they are continuously upgraded.

Q. So phones at those locations are continually being improved?

A. Oh, yes, sir, absolutely, because every time we have—you see, when area code changes happen and all of that, we have to change the chips. We have to upgrade the boards and everything so they properly work. We've put electronic coin mechanisms in our phone since that time, [41] which is a $230 charge, but it cuts our service down by about 80 percent on coin jams and all. We've got everything you can put in a payphone on our payphones.

Q. Well then what do you do if someone does sell the payphone site site? Do you resell it?

MR. SORRELS: I'm sorry, will you—

THE WITNESS: I don't follow you.

BY MR. LAKAS:

Q. Will say someone—say I'm an investor and I have my payphone and at the end of four years—or even at the end of five years I want to sell it back to you, and you pay me back. You give me my 4 or $5,000 back. Okay, you give me the 4 or 5,000 back, what do you do with that payphone site? Do you resell it?

A. We put it back in our inventory and the odds are it would be resold, yes, sir, but it would be upgraded at that time.

Q. It it was profitable, would your company keep it?

A. Yes, sir. Well, no, the phones we own—we own phones naturally, but we own—so we wouldn't be pointed at and said you cherry picked and kept all the best phones. We have a database, all of our phones, where they be new install, an acquisition, replacement, whatever goes into that database. We own everything that's not assigned to a lease and what we own this month we won't own next month. But [42] nobody can ever say I've ever cherry picked the phones or gave somebody a better choice because a computer totally assigns the pay phones.

Q. Well getting back to one of my original question, has everyone elected to use the lease option?

A. No, sir. We've got people that's done all three options. Now the majority of them do a lease option, yes, sir.

Q. Now what's the—of the payphones sold between 1994 and 2,000, what is the percentage that used the lease option?

A. Ninty-nine percent.

Q. Ninty-nine percent?

A. (Witness nods.)

Q. Let's go into why you went to the marketing companies.

A. Mr. Larry Grant suggested that, and so I—when I sat down with Mr. Grant, I said if I'm doing anything wrong, please tell me and I'll change. And so the two suggestions he suggested, we immediately went back and did it. The first independent marketing group we had was Bee Communiations out of Cartersville. And from that point on, Inter-Net no longer sold pay phones. Bee was originally the exclusive people that we bought payphones—or leased payphones from, I should say.

Q. Did you—well who went to that meeting with Mr. Grant?

[43]

A. Myself and Shelly Friedman, an attorney.

Q. And what firm is he with?

A. Freidman and—

MR. SORRELS: Associates, I think.

THE WITNESS: Friedman & Associates?

MR. SORRELS: I think that's right.

BY MR. LAKAS:

Q. Okay, now you say Bee Communications was your first distributor?

A. Yes, sir.

Q. Were you instrumental in helping form Bee Communications?

A. No, sir. Instrumental—I offered her—I told her if she would set it up, I would lease phones from her. In that instance, I was. But she said—it was a lady, Beverly Slater, that set it up.

Q. Did you know Beverly Slater?

A. Yes. She had been a marketer for ETS. I don't mean ETS, I'm sorry, for Inter-Net.

Q. What about—

A. As a matter of fact, her sale is what generated the investigation by you guys, the SEC.

Q. Who is Jim Jordan?

[44]

A. Jim now owns Bee Communications. BCI, he calls it. He bought Ms. Slater out.

Q. Did you know Mr. Jordan before he bought Beverly Slater out?

A. Yes, sir.

Q. And where did you know him before that?

A. I met him initially through Inter-Net. He was the sales manager for a long distance marketing company out of Vancouver, Canada and we had talked at one time about merging with that company. That's where I met Mr. Jordan, and then we became friends.

Q. So did you approach Beverly about purchasing Bee, or did you—did you have anything to do with Beverly and Jim Jordan meeting?

A. They met because of me, yes, but he had met her prior to them talking about buying her marketing group.

Q. What is Hayes Communication? I believe it's Hayes.

A. Yes. They are a marketing group out of St. Pete.

Q. Getting back to Bee. Does Bee sell—or does Bee recommend ETS exclusively?

A. I don't know that, no, sir. They—I—no, I don't know. I know they sell other products.

Q. What is your affiliation or relationship with Hayes?

[45]

A. They're an independent marketing group, also.

Q. And who owns Hayes?

A. Curtis Hayes.

Q. Did you have any prior relationship with Mr. Hayes?

A. I met him—he was a marketer for Bee and that's where I met him.

Q. So Bee was formed in approximately 1996?

A. Yes, sir.

Q. How about Hayes?

A. I think Hayes has been about—it'd be around '97. I think it had been a little over three years.

Q. How about National Communications?

A. Yes, they're an independent marketing group.

Q. Who owns that one?

A. Tom Murray out of Boca Raton.

Q. They're also in Florida?

A. Yes, sir.

Q. Do you know—what's his name, Tom Berry?

A. Murray, M-u-r-r-a-y. He came out of the Bee organization. As a matter of fact, he came out of Bee and Hayes came out of his group.

Q. So these entities sell payphones and then they recommend that ETS lease—they recommend that the individuals that purchase these payphones, that they lease [46] them back to ETS, your company, is that correct?

A. I don't know whether they recommend them, I know they give them the option and if they have an interest, then those people contact us and we send them the information, because none of the agents represent ETS, period.

Q. Does ETS sell payphones also?

A. No, sir.

Q. Well, from what it's going to show later, it does look like ETS has some payphones. I have seen a sales brochure for ETS.

A. But that's for getting locations.

Q. Getting locations.

A. Correct.

Q. In other words, that's the convenience stores or—

A. Right, the mom and pop. When the information is requested from a prospective pay phone owner, they fax us and ask for information on ETS, in that packet we send out an ETS brochure and a sample copy of the lease. But it's a generic brochure.

Q. How many payphones does ETS have under management at the current time?

A. Approximate 47,000.

Q. And they're all under this lease program?

A. Oh, no, sir. We have a little over 200 we manage for other people, we have I think 50 or so that we picked up [47] from another company that was doing a lease and these people took their phones back and we leased them from them. There was no money exchanged, we just took over the lease for them.

Q. Does ETS own any?

A. The phones that are not assigned.

Q. Okay, now Hayes, National Communications and Bee—am I missing any others?

A. No, that's the only three we have.

Q. When they sell a payphone to an individual or a customer, do they—where does the payphone come from?

A. They get the payphones—the marketing groups buy the payphones from PSA, which is a subsidiary of ETS.

Q. Where is PSA located?

A. In—the actual corporate office is listed where I'm at. We warehouse the equipment and everything at ETS.

Q. So approximately how many payphones are sitting in the PSA warehouse right now?

A. In the PSA warehouse, there's probably 2000 or so.

Q. Maybe 2000 in there, in inventory right now?

A. Yeah, ETS probably has got probably 5-6000 that's in different phases of being installed.

Q. Okay, let's go into I guess the sequence here. How does Bee market these payphones, to the best of your knowledge?

A. They have a marketing group of independent [48] marketers and they contact individuals and sell payphone equipment. If those people buy the equipment, then they have a choice of either putting it up themselves and operating it or they can contact us and if they contact us they have a couple more options, which allows them to—we'll put up a payphone for them and do everything and they take all the risk, they pay us a flat fee and they get the profit or loss off that phone; or they can do the lease, we take the risk and they get a flat monthly lease payment.

Q. But the actual payphone itself, Bee sells the payphone and, what do they do?

A. Bee sells the payphone and gives a bill of sale direct to the individual with serial number of the payphone equipment.

Q. And how do they get the serial number?

A. From PSA.

Q. They purchase exclusively from PSA—that was Bee, National and Hayes—is that correct?

A. The phones that ETS leases, I would think so; yes, sir.

Q. Going back to the original cost, is it still $3000 to PSA for the purchase of these payphones?

A. Well, it depends. Last year, our cost of an acquisition was a little over $4200 per phone. A cost to put up a new pay phone and get it profitable, because 30 to 40 [49] percent of the payphones that we do new installs

with never become profitable and we have to move them to make them profitable, we have basically the same cost per phone, by the time we new phone profitable too.

Q. I'm just talking about the original cost I guess.

A. If I'm—just original cost on the payphone?

Q. The ones sitting in the PSA warehouse.

A. With all parts, about $1000 to $1100, depending on—

Q. Oh, that's right.

A. And that's the phone housing itself with a board.

Q. Well, if someone from Bee purchases a payphone, does PSA assign the location?

A. No, sir, ETS assigns the location.

Q. I guess PSA just sells the actual payphone itself?

A. They sell the actual equipment.

Q. Sell the actual equipment, and ETS finds the location for the Bee investor.

A. Correct—well actually finds it for the phone owner.

Q. And then ETS has all these locations sitting out there.

A. We've got approximately 13-14,000 locations today we don't have phones at that are paid for.

Q. You've already paid for the location?

[50]

A. Yes, sir, they're under contract.

MR. SORRELS: Can we take a break when you get to a stopping point, Barry?

MR. LAKAS: Let's go off the record at 11:11 a.m.

(A short recess was taken.)

BY MR. LAKAS:

Q. Going back to that statement you made that there's, what was it, 3-4000 locations that haven't been—

MR. SORRELS: I think it was 13-14,000.

MR. LAKAS: Oh, yeah, you're right.

BY MR. LAKAS:

Q. Okay, 13,000-14,000 locations that have been located that have not been sold yet?

A. That we have location contracts to put payphones in.

Q. There are no payphones at these sites at the present time?

A. Not as yet; no, sir.

Q. How much does Bee, Hayes, National Communications, how much do they get for a payphone location when they sell it?

A. They're selling the equipment, the location, the package. The suggested retail today is $7000.

Q. And who came up with that figure, was it Bee or you helped?

[51]

A. I would say I did, we did.

Q. And what does—well PSA sells the payphone to Bee.

A. Right.

Q. What does PSA get?

A. $5250.

Q. $5250. And what does ETS get, just the leasing arrangement?

A. I need to change that $5250. $984 of that $5250 goes direct to ETS for the install from the distributor, and the remainder comes to PSA. And that started the first of last month.

MR. LOUGH: That was $900 and how much?

THE WITNESS: $984.

BY MR. LAKAS:

Q. That's usually the amount of the first year's lease payments?

A. Yes.

* * * * *

[53]

Q. Now the universe of payphone units, is this universe unlimited? I mean, how can you keep selling payphones? It seems like there's got to be some type of limit to the number of payphones that can be sold.

A. There's approximately 2.3 million payphones in the United States. In the country of Mexico, they're wanting an additional two to three million new pay phones installed over the next five years. That's the goal of the government. Internationally, it's a wide open market in South America and the different islands; in Europe, it's an already completed industry.

Was that what you were looking for?

[54]

Q. Well, it seems to me like different cities have different regulations, only so many it seems like you could only put so many payphones up.

A. Oh, I'm sorry, I apologize –

Q. You're kind of addressing it.

A. The way we get our phones is we either do an acquisition where we purchase a payphone route which is already existing sites or like we just got the Circle K account, so we will go in and replace the independent payphone provide that's there with our equipment, or we do new installs, which would be a new convenience store opened or restaurant, whatever it may be. And we do—last year, approximately 60 percent of our phones were through acquisitions, 35 percent was through replacement and about five percent was through new installs.

Q. I'm sorry, 60 percent was—

A. Through acquisitions.

Q. Through acquisitions.

A. Buying other—

Q. Of old sites?

A. No, buying existing payphone companies.

Q. Oh, I'm sorry, existing sites. Who do you usually buy them from?

A. Independent payphone owners.

Q. You mean just the individual person who bought it [55] for whatever reason?

A. No, the last company we bought was Triangle, 2200 payphones. They had a very strong operating

business and the gentleman was retiring, so we bought his business. We bought all his technicians and trucks and everything, took over his business.

Q. I guess that kind of addresses my question. That's kind of finite because there's only so many out there that are existing at the time.

A. Correct. The industry is really in a consolidatin because of all the changes happening in it. We have bought payphones from GTE, when they have chose to move out of a state, we bought the payphones from them. We have bought probably—and I don't know the exact number, but I'll make a guess of probably 80 individual routes from different people over the period of time.

Q. What about new payphone locations, what's the competition? Say someone opens a convenience store, I mean, do you automatically send someone there to try to get the location or does BellSouth send someone there? How does this—

A. Yes, all the above. Most of the time when we have a convenience store chain on contract, then any time they build a new store, we automatically get that account. We have all the Diamond Shamrocks nationwide, we have all the [56] Convenience Stores USA, the Swifty Serve, Murphy Oil. We have the Phillips 66, we manage their phones nationwide. We have the Texaco Star Marts in Texas and in Florida we have the Golden Pantries. We just got the Circle K, I said. We've got the Daytona Speedway, Darlington, we've got basically all of the NASCAR tracks under contract. We have Tampa Stadium, which we've had some time. We've got a ball park at Arlington, we've got airports at Huntsville and at Montgomery. We've got a number of

counties, like in Pensacola, we have all the phones on the beach that the county has there. We do in Atlantic City. So it's—

Q. Municipalities?

A. We do a lot in the municipality, but as far as a complete municipality, no. The closest one would probably be Brunswick, Georgia where we have all the payphones in the courthouse and the lobby of the jail and all their parks and everything. We have half of all the phones in the roadside parks in Texas. Lots of hotels—Cobb Galleria here. A number of large shopping centers across country too.

Q. If I see one of your phones at a street corner, is that usually through the municipality or is it usually with the sidewalk rights with the business that happens to be near?

A. See, here in Georgia, BellSouth has the sidewalk rights. Any phone we have here is on private property. It [57] could be sitting on a curb, but it'd be sitting on like a convenience store's private property. Now in New York City where we have quite a few phones, now we've got two franchises in New York City where we have curbside phones that are licensed by the City.

Q. Because I've seen some of yours on looks like street corners, but I guess you're saying it's on private property.

A. Right.

Q. Associated with a convenience store or restaurant or something.

A. If they were on the street corner, the City of Atlanta would have already jerked them off because they are tough about that.

Q. Now what's your arrangement with the location owner?

A. We have either five, seven or ten year contracts where we have the exclusive rights to put payphones up. And then they get a percentage of the net revenue and sometimes it's of the gross revenue.

Q. Do you have to send them some kind of accounting records?

A. They get an accounting each month with their check on their phones. And the larger accounts, such as Diamond Shamrock, you know, we've got 5000 phones with them, so they [58] get a breakdown of every phone.

Q. So you have what, a group of people that goes out and checks these payphones every month?

A. I've got 300 people that do nothing but service payphones full time.

Q. So they're collecting the coins out of them every month?

A. Collect a minimum of once a month, they're normally at every phone twice a month. Some phones, the really good phones, we'll be there every week.

Q. So 300 people doing 47,000 pay phones?

A. Right. Now I've got—as I say, I've got subcontractors that will take—probably about 1000 of those are done by subcontractors. The rest are done by our independents.

Q. I'm sorry, how many offices do you have in other states?

A. Twenty-eight offices. That includes this office too, here in Atlanta.

Q. Are they mainly servicing people that run around to these phones?

A. Right. We have a regional office in Brooklyn, New York and a regional office in Dallas; one up in Minnesota and one in California. And then we have what we call branch offices, the rest of them.

[59]

Q. So you've got 300 people doing approximately 47,000 payphones per month.

A. Correct.

Q. How about—well, actually how many—you might have a good idea of this—how many of the payphones are actually profitable, of the 47,000?

A. Forty-two. We've got somewhere around 6-8000 that are marginal phones. Advertising is one of the new things that's really starting to generate tremendous revenue for us, and some of those phones will take advertising booths, so we're not pulling in—but that's why we try to cull a minimum of 10 percent each year of our payphones, because just the economic conditions make good phones this year that will be bad phones next year, or marginal. Or somebody will build a store next door and put up phones.

Q. How have cell phones affected your business?

A. In the top 40 percent of the payphones, we've had a decrease in revenue; the bottom 60 percent, we have not. So it has affected and that's part of the change that's happened in our industry.

Q. How does this work, say I have a calling card and I go up to one of your payphones—calling cards, you can usually just walk up to a payphone and—you don't

even have to put 35 cents in. Does it deduct part of the calling card?

A. No, because you'll dial a 1-800 number there to [60] get—that's called dial-around, we get compensated, as of today, at 24 cents per call on those. And that's been in turmoil with the regulators for the last three years and hopefully, we're going to get another—a decision is coming down this next month that will clear that up. But it's eventually going to come back to the pay phone, in my personal opinion.

* * * * *

BY MR. LOUGH:

Q. You indicated that you cull approximately 10 percent of the phones each year.

A. Right.

Q. By that I guess you mean you take them out of service and relocate them or something like that?

A. Correct.

* * * * *

[61]

Q. Approximately what percentage or what number of the 47,000 phones that you have are subject to the kind of contract that requires that you maintain the phone, that you are not permitted to cull that phone?

A. I've got approximately 20,000 convenience stores, so I would say—which is about what, 40 percent of them, and those I would not want to cull, they're our best phones. That's why we are concentrating on convenience stores because when all this change happened, we chose to—how do you overcome the change, and we

vertically market into that store, we do their air and vac machines, we do ATMs, we do their prepaid calling cards and we do the long distance for that one location. And now of course we're doing advertising, which is—I'd like to talk a lot about that, but you haven't asked that question.

(Laughter.)

Q. You're talking about advertising on the phone?

A. We have the right to a patented payphone booth and what started this, when we got our two franchises in New York [62] City, at the same time they let five contracts to advertising agencies to sell the advertising on payphones. We are currently contracting with a company called Outdoor Concepts. On our Manhattan curbside phones, they're paying us a $7000 signing bonus and guaranteeing us a $450 per month minimum net-net-net commission on our phones because the City gets a commission since it's curbside and I don't have a location.

My outer boroughs got a $4000 signing bonus and a guarantee of $150 a month. Now I have a 15-year contract with the City on those phones and I have a five-year contract with the advertising company on the guarantee.

When I saw that, I says if that'll work like that, I've got 20,000 convenience stores out here that tobacco is screaming for some place to advertise and they can advertise up to 13 square feet on private property where cigarettes are sold over the counter—convenience stores.

So we started looking, and we patented two different types of phone booths in conjunction with the manufacturer. We have an illuminated 12 x 18 over the

phone and we have a two foot by three foot on the back and a two foot by three foot on each side that are illuminated 24 hours a day. That booth will generate an additional $725 per month gross revenue. Then we developed one that's on the wall and whether it be on the wall of a convenience store or a wall of a sports bar, that has an angled ad on it so it doesn't take [63] out the walk room when you walk by it or so on, it has one over it.

So we've done two contracts with R.J. Reynolds on advertising, one in the northeast where we've got our first booths going up, and one in Phoenix, Arizona.

It is manna from heaven, for a choice of a better word.

BY MR. LAKAS:

Q. How often do people want refunds? That is give you the 180 days notice?

A. Right.

Q. Or is it 90 days? I'm sorry.

A. 180 days. We have, in the first five years had a one percent per year average of liquidations. Last year, because I had two rescissions, we had a four percent liquidation.

* * * * *

[65]

Q. So in if 2002, 8000 phones—8000 purchasers wanted or elected not to renew or lease, that would be what, $6000 a phone or $7000 a phone?

A. I would say they were probably $6000 a phone at that time.

Q. So you're talking about what?

A. $48 million.

Q. $48 million. Say that happened, what—how is ETS going to pay that back?

A. Well, the payphone and location backs up every piece of equipment. If I did not have the revenue from my internal operations or from external resources, then I could sell the payphone locations to other payphone vendors. But our goal is certainly not to sell them, our goal is to own [66] them all ourselves.

Q. At the end of five years, how much time do you have to pay these people back?

A. Pay them—we notify them at 120 days prior and then at 90 days, whether we choose to purchase or not. And if they request us to purchase. Then we buy it back at the anniversary date.

Q. You buy it back at the anniversary date.

A. Yes, sir.

Q. So is there any pattern of these things going up, these locations? Because you said you believe that some—say only 1000 became due, you're saying that some other marketer or some other payphone company would buy all these locations.

A. Yes, sir. Let me explain why. Today, the value of a payphone is based on total sources of revenue from that payphone minus your line charge you pay the phone company, minus the commission you pay for that location, that's called gross net and we say times 30, that is the normal way payphones are sold. Now put advertising on these payphones.

Let's say that payphone booth that can generate $700 only generates $400 a month. The value of outdoor advertising is you take that $400 times 12 is $4800 times five to ten, so my payphone booth and phone now is worth somewhere from $25,000 to $30,000 each in the marketplace. That's current value [67] that everybody is paying for outdoor advertising.

So I'm saying I think my locations are going to be worth considerably more.

Q. You think.

A. Absolutely. I'll give you a personal opinion. I think payphones in five years will be worth—locations—will be worth between $10,000 and $12,000 with operating income on them. That's my personal opinion.

* * * * *

Q. Okay, let's go over this scenario. All 8000 payphones, the purchasers elect not to renew the leases, all 8000 are due. No company wants to purchase them. What are you going to do to make these people whole?

A. Well, I don't owe anybody anything. I don't know what it'll be two years from now, but today I don't owe anybody anything. So I have outside resources I could call on. All of my trucks, everything is paid for, my other businesses are there generating income, so I certainly can generate the revenue to buy them.

Q. If that happens though, you start selling your trucks—

A. No, I could borrow all of it.

Q. I thought you said you couldn't borrow from banks.

[68]

A. No, no, I said I couldn't borrow when I first started. You know, I'm in a whole different situation now. I was zero and we did $170 million last year, so we're a major payphone player. And then our other businesses, we've got a very, very large business here.

Q. But you do say 42,000 of these payphones are profitable, is that correct?

A. Yes, sir.

MR. LONG: Barry, could I ask some questions?

MR. LAKAS: Sure.

MR. LONG: There were a couple of points I'd like to get some further information on.

BY MR. LONG:

Q. Mr. Edwards, you said PSA was a subsidiary of ETS?

A. Yes, sir.

Q. Is that like a 100 percent owned subsidiary?

A. Correct.

Q. And is that the name of the company, PSA?

A. I believe it's PSA, Inc.

Q. Do you know where it's incorporated?

A. It's a—I don't know for sure. I'll have to check and find out for you, sir.

Q. Are there other subsidiaries of ETS?

A. Yes, sir, there's ETS Vending, which does the air and vac; there is POA, which is our limited partnership that [69] does Mexico.

Q. Are those wholly owned by ETS?

A. ETS owns 100 percent of Vending and it owns 60 percent of POA.

Q. Of course, I need to know who owns the other part of POA.

A. I know the two principals, but I don't know whether the stock is direct in their name or in a corporation they have—it's name. I can certainly get that information.

Q. Who are the principals?

A. Jack Limke and—oh, geez, I'll think of it in a minute.

Q. So those are all of the subsidiaries. Well, let's put it this way, those are all—this is all of the subsidiaries of ETS?

A. Correct, sir.

Q. Are there other affiliated companies that might not be considered subsidiary that are involved in these operations?

A. There's other companies that Twin Leaf owns, which I own both Twin Leaf and ETS.

Q. Have you mentioned those on the record already?

A. Yes, sir.

Q. You said last year there were two rescissions?

A. Yes, sir.

Q. Would you elaborate on what those amounted to?

A. One was in Kansas, which we got a cease and desist, and we had voluntarily stopped selling there. Instead of fighting and paying large legal fees, we chose

to do a rescission. Eleven percent of the individuals chose to take the rescission. And in Pennsylvania, we voluntarily stopped selling. There was no C and D or anything. And we did a rescission there, and 34 percent of the people took it.

* * * * *

[73]

Q. Before we go on, let me just ask a couple of things. You said that last year you had two rescissions, one resulted in Kansas and the other was in Pennsylvania?

A. Correct.

Q. And Kansas had followed as a result of a cease and desist order. What agency issued or entered that C and D, do you know?

A. I think the Department of Security in Kansas.

Q. And what is your understanding as to the basis for that cease and desist order?

A. They thought we were selling a security.

Q. In Pennsylvania, was there an inquiry that came from some regulatory body within the state?

A. The Department of Security.

Q. Okay. And it did not lead to a cease and desist order, is that right?

A. No, sir.

Q. Were any proceedings initiated?

A. No, sir, none. There was no proceedings in either one.

Q. All right. Have you had regulatory inquiries from any other state regulatory bodies?

A. Yes, sir. I've had them from Florida, from North Carolina, from Iowa, Oregon, Kansas and Pennsylvania —and Rhode Island.

* * * * *

[77]

THE WITNESS: If you're looking at the total number of phones operating as we have now, you probably have 34,000 that are totally profitable because some of them are in the process—new installs and so we don't really know what the profitability of them are yet. We know [78] approximately 34,000 are profitable.

BY MR. LAKAS:

Q. Going back to this Exhibit Number 7, do you recognize this document?

A. Yes, sir.

Q. Would you describe it, please?

A. It is the brochure and disclosure that is sent out to prospective lease holders when they request it from ETS.

Q. When they request it. So not everyone gets this?

A. Only—they either fax or send us a letter with a written request and it is sent out to them.

Q. How would they know it exists?

A. When the marketing people talk to them, if they have an interest in the leasing of the program, then they fill out a form and send it to ETS.

Q. Does that form identify this document?

A. It requested information on ETS, is what it does. It's a fax form, just a single page.

Q. Oh, so if they send that in to you, then you automatically mail them this?

A. Yes.

Q. Other times, they just take the person's check—they fill out an application, they take the person's check and they never see this? I guess I'm confused, why do some get it and some don't?

[79]

A. Well, everybody gets it that leases a phone.

Q. Oh, everyone does get this that leases a phone?

A. Everybody that has requested information on leasing—no, not everybody that leases—every one we don't—send out does not end up in a lease.

Q. Right.

A. But everybody that does a lease has had one.

* * * * *

Q. Who supplies it to the agents?

A. The agents do not handle it. It is sent out direct by ETS to the individual payphone owners who request it.

Q. Who request it.

[80]

A. Correct.

* * * * *

A. My understanding is that the marketing agent or salesman contacts a prospective phone owner, talks to

them about buying payphone equipment, they do not represent ETS in any way, shape or fashion. If that individual is interested in either leasing a payphone or having service on a payphone, then the individuals themselves request that we send them a package which we do. And then if they choose to lease the phone or take option 2, then we deal direct with the individual once they own the equipment.

* * * * *

[89]

BY MR. LAKAS:

Q. That's why—going back to my statement about how finite is the universe of selling payphones, because this financial statement looks to me like you have to keep selling payphones and payphones and more payphones to be profitable and to pay your expenses. Eventually this is going to have to dry up.

A. I would say yes to that.

* * * * *

MR. SORRELS: This financial statement doesn't [90] reflect anything in the way of advertising revenue, does it?

THE WITNESS: No, sir.

BY MR. LAKAS:

Q. Well, how much advertising revenue did you have last year?

A. I had zero last year.

Q. And what do you expect the advertising revenue to be next year?

A. This year?

MR. SORRELS: 2000.

THE WITNESS: 2000?

Q. 2000. Okay, this year. We're already in it, but—

A. We should hit pretty close to $15 million to $20 million.

Q. How much have you had the first three months?

A. We got our first check in last month. $8300.

Q. $8300? Is this $15 million based on the $8300?

A. That was the first—that was 103 of the booths we had up and of course that grows every month as we're putting our enclosures up.

* * * * *

[93]

Q. So is there a time lag between when people purchase a payphone and when they're assigned a payphone?

A. Yes, sir, it can be as short as two weeks and go as much as two to three months, depending on inventory and where they're going.

Q. Why would it go to two to three months? I thought you said you had 11,000 to 13,000 locations.

A. We do. Well, for instance, like we got the Swifty Serve account, which we took over January 1. These are [94] convenience store phones. Well, the people that are currently in there are just now taking their phones out, so although we've had the contract this long, it'll be another 45 days before we get the phones in those contracts and that happens occasionally, more

than we like, when we're replacing another vendor's equipment.

Q. Are purchasers of these payphones being told that there might be a three month delay before they—

A. Yes, sir. And then they get an addendum to their lease that states where their location is, so they can go out and feel and touch and see their payphone.

Q. But they get assigned a serial number right away, do they not?

A. Yes, sir.

BY MR. LOUGH:

Q. At what point in time do they receive information regarding the location of the payphone?

A. It will be anywhere from the time they receive their lease up to two to three months later, depending on the install. Then they get an addendum that gives the location of every one of their phones.

Q. Do they receive that directly from ETS?

A. Correct.

Q. That doesn't go back through Bee Communications or whoever sold them the phone?

[95]

A. No, actually Bee has sold them the phone and location. We assign the location, their location, which is part of the original purchase.

BY MR. LAKAS:

Q. But you said they are informed that they may not have a payphone for a few months.

A. Well, they've got a payphone—

Q. They might not have a location for a few months.

A. Correct.

Q. Okay, go to Note C, commitments and contingencies, which is on the next to last page. I'll read the first paragraph: "As discussed in Note A, the company leases payphone units. Lease arrangements provide that the company may purchase the payphone unit upon 30 days notice and the lessor as a put option to sell the payphone unit to the company upon 180 days notice."

The next line says, "If a significant number of lessors were to exercise their put option, the company does not have the available resources to satisfy its obligations."

Is that a true statement?

MR. SORRELS: As of December 31, '98?

A. Not in the bank. But we have other sources of revenue.

BY MR. LAKAS:

Q. What might those be?

[95]

A. You know, lines of credit, external financing.

Q. That statement there, are purchasers of payphones being informed the company does not have the available resources to satisfy its obligations if everyone were to exercise their options to sell the payphones back?

A. I'm sorry, I didn't understand your question.

Q. Are purchasers of payphones being told this—that the company does not have the available resources

to satisfy its obligations if a significant number of lessors were to exercise their put options?

A. I would not think so, no.

* * * * *

[99]

Q. They get them [the payphone assignments] automatically.

A. Yes.

Q. From that inventory of 11,000 to 13,000 locations that you have.

A. Right.

Q. If you go to the last page, there's a lot of lease numbers with serial numbers but with nothing on them.

A. That means there has been no location assigned to these, as of this date.

Q. So these people have purchased their payphones—

A. Correct.

Q. —So they're part of the 3000 or so at the end of the year that haven't been assigned payphones—or at any point in time.

A. Correct.

* * * * *

[101]

BY MR. LOUGH:

Q. Approximately how many phones per month are sold?

A. Last year, we averaged about 1250 a month.

Q. About 1250 a month?

A. I believe that's correct.

[102]

Q. But there is a lag time between the sale and the placement of the phone.

[103]

A. Correct.

Q. And I think you previously testified that can be a few weeks, it can be a few months. What's the longest lag time?

A. I think the longest we've ever had would be between three and four months.

Q. Okay. Do you know what the average would be?

A. I would say the average would be within six to eight weeks.

Q. Have you done any kind of a study of that, to actually determine what that is?

A. I did approximately six months ago.

Q. And that resulted in your determining that it was six to eight weeks?

A. Correct.

* * * * *

Q. Is that of concern to the company, that there is that period of time between the sale and the actual placement of the phone?

A. From my viewpoint, no.

Q. Why is that not of concern?

A. Because we are—if the delay is there, it's because of a legitimate reason and we are constantly working [104] to pull it back. It's just a matter of doing business, because the sales will come in, maybe 1000 this month and then 2000 next month. If I get 2000 sales a month, now that's going to put a pressure on us to get things caught back up, which we do.

Q. And you've said that you essentially have a certain number of locations that—I think you said between 12,000 and 14,000—

A. Correct.

Q. —that are under contract. Now a number of those are not available for installation, I take it, as present?

A. A few of them, yes. I would say probably 2000 are in the process of removing—well, maybe closer to 3000—in the process of removing the phones from existing vendors.

* * * * *

BY MR. LONG:

Q. I'd like to ask a couple of questions, Mr. Edwards. Concerning your compensation in 1999, it's not clear to me exactly what that was that grew out of the ETS operations either directly or indirectly. Would you state for the record what that was?

A. Well, PSA pays to Twin Leaf a management fee, a figure per phone.

Q. How much is that?

A. It's $250 per phone. And we cover all of our—[105] my management team, covers all their expenses and everything out of that.

Q. So what was your personal compensation in 1999 that came directly or indirectly from the ETS operations?

A. Okay, because PSA being ETS—$380,000.

Q. Was that your top year?

A. Yes, sir.

Q. With respect to the—if you view the ETS operations that have been described on the record as a method of raising capital to acquire phones, can you quantify the cost of that capital in a percentage basis?

A. It varies on each of the different leases because as we started, it was a higher percentage, but I would say on an average right now, it's about 14 percent—overall average about 16 percent.

Q. And that's paid to whom?

A. To the lease holders.

* * * * *

[107]

Q. If you had a source of capital say from a financial institution, what would the rate have to be in order to be a better rate than what you're paying now?

A. Of course 15 percent would be better. But see, that's one of the situations in our business, because after I talked to Mr. Grant and I gave the put to the owner, that he can come back and get the phone any time, he's got absolute control of the phone. Well, he sort of controls what I can and cannot do with the phone. If he chooses for me to buy that phone, then I can take those phones to Wall Street, if I chose, and raise the money because I've got the equipment to sell. Today, I don't own any phones, the owners own the

phones. So the cost of my dollars—the equipment came in, [108] I'm leasing that phone for the use of that equipment. So I've really not borrowed his dollars yet, I've got his equipment.

* * * * *

[PLAINTIFF'S EXHIBIT 21]

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

File No. A-02501

IN THE MATTER OF ETS PAYPHONES, INC.

INVESTIGATIVE INTERVIEW

TRANSCRIPT

APPEARANCES:

On behalf of the Securities and Exchange Commission

BARRY LAKAS, Staff Accountant
Securities and Exchange Commission
Suite 1000, 3475 Lenox Road
Atlanta, Georgia 30326
(404) 842-7600

On behalf of the Witness

WILLIAM G. LEONARD, Attorney
2115 East Lake Road
Atlanta, Georgia 30307-1835

* * * * *

Whereupon,

MARIO ROBERT COMMITO

appeared as a witness herein, and having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. LAKAS:

* * * * *

[14]

Q. Let's get to the questions now. Can you go over again how you got hired by ETS?

A. ETS actually ran an ad in the newspaper looking for a CFO. I was—I sent in a resume and they asked me to come in.

* * * * *

[21]

Q. Who was out there selling these payphones, to your knowledge?

A. There were independent sales groups.

Q. Okay, that's the marketing groups?

A. Marketing groups.

Q. ETS didn't sell any payphones themselves?

A. ETS sold no payphones.

Q. Now when you had your interview with Mr. Edwards or maybe even Mr. Ginsburg, did they go over the company structure?

A. Charles did go over the company structure.

Q. Do you remember what he said the company structure was?

A. The company structure was that there were actually two companies, one of which was ETS, which was an operator of payphones.

Q. Okay.

A. The other company was PSA, which was a company that did the acquisition of the routes and sold phones and Charles was very careful about this distinction—sold phones to the independent marketing companies.

Q. Seller of payphones—and that was PSA subsidiary of ETS?

A. A sister company I believe, not a subsidiary.

[22]

Q. So then who owns stock of PSA?

A. I believe it was owned by Twin Leaf, to my knowledge, which was Charles' personal company.

Q. Twin Leaf owned PSA?

A. I believe. I'm not sure, I did not do anything on Twin Leaf's books.

Q. Were you hired them to be the CFO for ETS and PSA?

A. And PSA.

Q. For some reason, I always thought PSA was a subsidiary, because the audit—not the audit, they don't have audited financial statements—but the consolidated financial statements I've seen—

A. They combine the two.

Q. They do combine the two. It says ETS Payphones, Inc, and this is Note A to the December 31, 1998 financial statements which I'm going to show you later, it says "ETS Payphones, Inc. and subsidiaries are engaged. . . ."

A. There's a bunch of other subsidiaries.

Q. But PSA was not a subsidiary.

A. I think it was a sister company, I'm not sure. I never saw the '98 financials, they didn't finish them—

* * * * *

[23]

Q. But ETS—you're not sure if PSA is included in the—

A. No, I'm not.

Q. —in the financial statements. So you believe Twin Leaf owned PSA. Now what's Twin Leaf?

A. It's a holding company or a company owned by Charles Edwards personally.

Q. A holding company, and what do they hold, just PSA?

A. PSA. They may own ETS, they—I believe Legends was under Twin Leaf.

Q. So Twin Leaf also owned—well, when you say Charles Edwards controlled ETS, it was actually Twin Leaf owning it?

A. Well, Charles was Twin Leaf.

Q. Well, give me all you know about Twin Leaf.

A. Very little. It was a company that was Charles Edwards' company, it wasn't even domiciled with us. Their whole function, I don't know what it was, I never did the books for them, they were done by Dan Weldon.

* * * * *

[25]

Q. So you have Twin Leaf as a holding company and under that, you have ETS, PSA and Legends?

A. Uh-huh.

Q. Any others?

A. There were some—there was an LLC but I'm not sure what the ownership was there, that we put together with a company in Mexico to do payphones in Mexico City. And there are long acronyms involved there in Spanish. And there was a company set up here in the states to be the LLC that would own the Mexican company. And I believe Twin Leaf was the partner of that LLC.

Q. How about a company called I believe it was MSC?

A. MSC was a subsidiary of ETS.

* * * * *

[26]

Q. How about Pleasant Hill, have you ever heard of that?

A. Pleasant Hill, vaguely remember it.

Q. I believe it was just a company owned by Charles Edwards that owned the building that—

A. That's what it is, they were just breaking ground on the building when I left.

Q. How much did you deal with Don or Dan Weldon?

A. Only in the sense of we talked about setting up systems for Legends, recommendations back and forth. We talked about—prior to him being an employee, he explained to me some of the structures between PSA

and ETS because he was involved with Charles at that level. And then information back and forth for cash advances that—when we transferred money out of PSA, I would get notification that money had been transferred and then I would confirm with him who received it.

Q. Where was the money going?

A. Twin Leaf primarily, PSA would pay that overhead fee. Occasionally we did—at the very beginning we did some small advances to Legends.

Q. How much—well during the time you were controller or CFO, do you know how much approximately was transferred from PSA to Twin Leaf?

A. It was—I couldn't give you an exact amount but [27] it was probably in the range of $100,000 to $150,000 a month.

Q. So you were there almost a year, is that correct?

A. Right, just short of a year.

Q. So maybe $1.2 million?

A. Yes.

Q. Any other type of advances to Twin Leaf from PSA or ETS?

A. Not while I was there. There was a lot of things done prior to my getting there and I don't have access to the records as to what the opening balances were.

Q. How about Legends?

A. Legends, I think the total we gave them was very small, it was over about six months to cover payrolls and things as they were rebuilding the switch and

setting it up. And it was probably a total of about $200,000 to $300,000 over the entire year I was there.

* * * * *

[29]

Q. Did you have any disputes with Charles Edward when you were working for ETS?

A. Not disputes. I mean we had discussions over a number of things. I take the position as a CFO that I have to look at things with a very clear, hard eye. Charles once sat me down at night and said I sense a certain amount of negativity. I said no, Charles, it's not negativity, when there are problems, you face them.

Q. What were some of the problems that you were having?

A. We were losing money as an operating company.

[30]

Q. Okay, did you do the financial statements?

A. Yes.

Q. For the company?

A. Yes.

Q. This is kind of tricky. Did you consider the sale of the payphones as revenue?

A. Yes, we treated them as revenue.

Q. Is that the way Charles Edwards wanted them recorded—

A. Yes.

Q. —on internal financial statements?

A. Yes, it is.

Q. Did you see any problem with that?

A. When I joined the company, they had had a prior accounting firm named Gross, Collins & Cress, it's a local firm and a good firm. And they had refused to issue a statement recognizing the sale of the phones by PSA as a revenue item. The audit for the prior year, which was '97, had never been closed. And the—

Q. Was that Grant Thornton?

A. No, that was Gross, Collins.

Q. Oh, that's right, they weren't in yet.

A. And when I came in, what I wanted Charles to do was to get an opinion, clean opinion, on the company and he wanted the recognition of the revenue. I met with Gross, and [31] of course I got the job of getting them to cut the outstanding fee, which had been run up to like $140,000 for a small audit. We reached negotiation and they were dismissed as auditors.

And he said who should we bring in and that's when I recommended Grant. When Andre came in, we spent a considerable amount of time on the issue and I'm not a GAAP expert, that's why I bring in people that area. I'm a business accountant.

Q. Right.

A. Andre spent untold hours both with his staff, with me, also with the managing partner of the office here and they even brought in their GAAP experts from I believe it was D.C. And they could not come to a way—now they could recognize pieces of it as prepaids or fixed assets, they could do a number of things, but they could not come to a way to recognize as pure revenue the sale of the phone.

Q. Yeah, from a GAAP viewpoint, I just don't see how these things could be considered revenue. But for internal purposes, I guess you could account for them any way you want.

A. Sure.

Q. There's usually nothing wrong with that.

But do you know how Charles Edwards reacted when the CPA firms told him that he couldn't recognize—

[32]

A. He tried to convince them that these were truly sales.

Q. Well, no audit report was ever issued, was it, because of the fact that these payphone sales could not be recognized as revenue?

A. That's correct. Gross, Collins got to the point in the draft, but recognized debt rather than revenue and they were let go because of that, it was not an acceptable report. And Grant was still working on it when I left, but they could not come up with a GAAP presentation that they could make an opinion on.

Q. So it looks like Charles Edwards had a dilemma. Why did he want audited financial statements?

A. Well, Charles' long-term thinking is to be a public company and he recognized the fact that you'd have to be GAAP, you'd have to be audited, you'd have to have a reasonable firm give that attestation. That's why I brought in Grant because I thought that they're big enough to do a public offering and yet they're small enough and boutique enough that they really do give you a lot of good service.

Q. Right.

A. So that was his long-term plan, was public.

Q. Well, when you see the financial statements, and I'm going to show them to you later, from a GAAP viewpoint, it's pretty obvious that this company existed from the sale[33] of new payphones. I mean, you can always argue that any company has to exist from the sale of their products, but this company was making their lease payments from the sale of new payphones, they—and actually the sale of these new payphones were actually, to me, more capital lease obligations or debt instruments. Technically the company, to me, had like a $350 million liability because they had a promise to buy these payphones back.

Was Mr. Edwards aware of that?

MR. LEONARD: When you say company, are you talking about ETS or PSA or the combination?

MR. LAKAS: Well, the whole thing, I'd say the combination.

BY MR. LAKAS:

Q. To your knowledge, was Mr. Edwards aware of that situation that this company was really existing and was dependent on making its lease payments from the sale of new payphones?

A. To my knowledge, Charles felt that this was a very good deal for the payphone lessor and owner.

Q. Oh, yeah, it was.

A. That he felt that he had done people a great favor and he actually gave a number of speeches where he felt that he had changed people's lives for the better by the stream of income that he had provided for them.

[34]

He also recognized that at some point, you know, a payphone is going to be tendered back. But I think that was where he felt that the public company would be important. That people would be willing to tender back in exchange for stock in a public company.

Q. So his long-term plan was to convert that so-called debt that he would owe these people for the payphones in the future to some type of equity instrument?

A. Well, either that or by raising funds in the public arena, being able to actually buy the phones back, because it was his statement on numerous occasions that he wanted to own those phones and not be in a position of leasing them, that it would be much more effective to have a large company owning the phones.

Q. Right, because if these payphones were so profitable, why didn't he just own them himself?

A. Because to build up quickly, you need some funding vehicle.

Q. So these were funding vehicles.

A. Not funding vehicles in that sense. The statement I was about to make is, as a startup company, you can't fund out of a bank, nobody is going to give you a loan. As a matter of fact, I approached a couple of bankers I know and they said fine, put up a CD and we'll lend you the amount of the CD. Well, terrific.

[35]

He felt that he was in the business of signing leases just the way you would lease trucks or tractors or construction equipment or anything else, on a

leaseback from an owner of a payphone. That was his contention throughout the entire time I was there.

* * * * *

Q. Right. Well, let me show you these financial [36] statements now. I'm handing the witness what's been previously marked as Exhibit Number 9. These are compiled financial statements of ETS Payphones, Inc. as of December 31, 1998. I'll let you look at those for a minute or two.

(The witness reviews the document.)

Q. Have you seen these financial statements before?

A. This look like—I'm not sure, but it looks like a draft that was prepared by Grant Thornton.

Q. Did you participate in the preparation of these statements?

A. I believe I—I believe this is what I gave to Grant as the way we were keeping the internal statements.

Q. If you go to the consolidated statement of operations, on the third page, it's kind of blacked out, but do you see operating revenue almost $100 million. I would assume that the sale of payphones were included in that operating revenue.

A. Yes.

Q. Well, if you go to the balance sheet, though—and this is what I'm really interested in here. Under current assets, the fourth line, it says, accounts receivable affiliates. Close to $4.5 million was advanced to affiliates. Do you know who those affiliates were?

A. I would have to go back to the original books and records and see who they were. Most of that was on the books [37] before I was there.

Q. It was?

A. Oh, yeah. When I got there—

Q. Did you ever do any type of chart or workpaper reconciling that account, or just determining, you know, who owed that money?

A. I think there was a worksheet in the files there that had been done by Kevin on a monthly basis.

Q. I remember seeing one Grant Thornton worksheet. It said a lot of it was to MSC, but then it was—it looks like it was adjusted out back to Twin Leaf.

A. MSC was incurring loses and they were sending money up there to cover payroll and to cover—now that you mention it, it was—about 2 to 300,000 a month was going up to MSC for loses.

Q. Well, to your knowledge, was Charles Edwards just taking money out of this company and sending it to his affiliates?

A. I think—I don't remember that it was going outside the company very much. It may have been prior to my getting there. But there was very little cash flow within ETS. PSA had the cash flow. ETS was incurring loses on an operating basis every month, as was MSC, which was folded into ETS as part of their overall loss.

Q. And MSC was just doing the same thing that ETS [38] was, just managing payphones?

A. Just managing the 2,700 phones.

Q. Well MSC, though, was a subsidiary of ETS, is that correct?

A. Yes.

Q. So any money that was advanced to them should have been canceled out—wouldn't show up as that—

A I would have to go back to the actual financials—you know, our general ledger.

Q. Okay. What I'm showing you has been previously marked as Exhibit Number 15. These are the consolidated financial statements and accountant's compilation report for ETS Payphones, Inc. as of March 31, 1999, which is three months later. This was compiled by Grant Thornton. These financial things have been prepared on what I consider a modified GAAP basis. The revenues from the sale of payphones are not included as actual revenues. They do set up capital lease obligations.

A. And record the equipment.

Q. Right. They have reported the equipment as assets. But if you go to other assets under the balance sheet, you'll see the account, accounts receivable affiliates. It's now up to over $8 million, and at December 31st, 1998 it was only 4.5 million. So it's gone up another $3.5 million in a period of three months.

[39]

A. By this time there was also the Mexican operation, which, I believe, was related to ETS because it was payphones.

Q. What was the name of this Mexican operation again?

A. I've really forgotten it. It was a—it was in Spanish.

Q. So—

A. There was money flowing to the other operations, but they were payphone operations.

Q. Who was responsible for writing checks?

A. Checks that were paid for bills and for telephone bills and operating expenses were written in the accounting department and they were done on a signature slogan and it was Charles' signature and mine while I was there. Any movement of funds was done by a wire transfer and it was done by his personal secretary, who was also the corporate secretary. We would get a slip of paper, a recap, at the end of the month that would list all of the wire transfers that she had made, both any wires that came into the company and wires that went out from the company. There would be a journal entry made to pick those up.

Q. Okay. Do you remember—because you were obviously controller or CFO at this time, do you remember where this money went to for it to increase that much in a three-month period, to go from 4.5 million to $8 million?

[40]

A. I would think that—since this includes PSA, I would think—I'm not sure. It would have—I would think this includes PSA in this statement—

Q. I think it does, yes.

A. —so I—

Q. It would have to because the payphone sales—

A. Right, are in here.

Q. —are included.

A. Legends by that time would have gotten some significant dollars because they had to buy the switch and that was a third of a million dollars to buy the switch, and then they had to spend a lot of money for equipment to bring it up to spec that they had to purchase from the manufacturer of the switch. So there were probably, during this period, half a million to three-quarters of a million dollars that went into Legends. The acquisition or the joint venture in Mexico, there was about 3 or $400,000 worth of open bills to a company called Elkotel that makes phones that it shipped to the Mexican operation. They needed them to put them up and they were stalled at the border because the Mexican operation had never paid for those phones. So that had to be cleaned up.

You would have had payments or loans made from PSA to Twin Leaf. I think that the —

Q. Do you mean $225 per payphone?

[41]

A. The 125 and any other additional funds Twin Leaf needed. I know that they had put up by this time—or shortly thereafter we were up to—Pleasant Hill had used 6 or $700,000 worth of advances, which probably came out of—

Q. Do you know what they were for?

A. For the construction of the building, and that came out of PSA also. So there's almost $2 million right there. So, you know, the funds that were being spent were—they were going out of PSA, not out of ETS.

Q. But you still were the controller for PSA?

A. Yes.

Q. In your opinion, were these payments being made for legitimate business purposes?

A. It would be strictly an opinion.

Q. That's what I'm looking for. That's all you have.

A. Some—well some. Some of the things that I—that Charles had done over the years—which I'm not sure where the money came from, but ultimately, I assume it came somewhere out of the companies. He made an investment to remodel a home down in the islands, which I didn't think was—you know, at the stage of the company—I'm pretty much a conservative accountant and at that stage of the company, I thought that wasn't the brightest use of money. That was done before I was there. So some of these—

Q. Who told you that was done?

[42]

A. He did.

Q. Was it done through Twin Leaf? Did he—

A. I believe so, yes.

Q. This was an investment in his—in a home where?

A. St. Simons.

Q. Did he tell you how much he—

A. It was a lot. I mean, it was hundreds of thousands. The building we were building was—I thought was a decent investment in terms of a company headquarters.

Q. Where was this going to be?

A. It was at Pleasant Hill and Peachtree Industrial.

Q. That's why it's called Pleasant Hill. That makes sense.

A. Peachtree Industrial and Pleasant Hill, which is a good construction area for offices. I thought that was a reasonable business use.

Q. What was he going to do, consolidate everything there?

A. He was going to consolidate the Twin Leaf operations there and the corporate operations there and leave the—because the daily operations require a lot of truck storage, materials storage. It requires a loading dock that is secure so that you can bring a Brinks truck in and load it up every day. They had to have a secure safe area where they did the coin counting. It doesn't lend itself to high- [43] quality office space.

Q. Where's that now, in Lithia Springs?

A. That's in Lithia Springs.

Q. Is that where your offices were located?

A. That's correct.

Q. I'm trying to remember where Lithia Springs is. Is it on the west side of town?

A. It's on the west side. It's the exit after Six Flags.

Q. Okay. Getting back to Twin Leaf again, what—we've been over this before, but refresh my memory. Does Twin Leaf have any legitimate business purpose?

A. I have no idea what Twin Leaf did. I do know that we advanced money, as I say, as an override out of PSA, 125 a phone.

Q. So you just followed the instructions—

A. Well, we didn't even—it wasn't a matter of me advancing. I mean, I would get a slip of paper that says there were X hundreds or thousands of phone sales made this month, times $125, and we wire transferred this money, please record it.

Q. Twin Leaf had a separate bank account from PSA and ETS?

A. Yes, each company had their own accounts.

Q. Well this $8 million to affiliates, do you know [44] how much was advanced to Twin Leaf?

A. No, I don't.

Q. I thought the amount that you had advanced to Twin Leaf was $250 a payphone?

A. It may have changed after I was there.

Q. It was just $125 the whole time you were there?

A. It was $125 all the time I was there.

Q. Did you ever question Charles Edwards about some of these payments to Twin Leaf?

A. No. He's a 100 percent owner.

Q. It's his company, I realize that. I understand that.

* * * * *

BY MR. LAKAS:

Q. Mr. Commito, while I've got you, let's go over the internal structure of ETS and PSA. Who was the chief operating officer of PSA?

A. Charles—Charles Edwards.

Q. Was anyone else involved in the operations of PSA?

[45]

A. There was a separate staff that did all of the contact with the lessors. The placing of the specific phone numbers and all of that was handled by a clerical staff.

Q. Well that would have been in ETS though, wouldn't it?

A. No, they were in PSA. They were PSA employees.

Q. And they handled the lease—the lessors?

A. They handled the lessors, they handled the—

Q. Paying the lessors? That would come out of ETS, wouldn't it?

A. Paying lessors came out of ETS, but all contact with the lessors was done through a separate group of people.

Q. Okay. And who was in charge of that department?

A. I forget the name. There was—there were about three departments and they were basically under Joan —I think her name was Wagoner, but I'm not—no, no, Wagoner was the attorney. I don't know Joan's last name. She was Charles' secretary and the corporate secretary, so it'll be somewhere in the corporate minutes.

Q. Again, ETS, what was the structure of ETS? Who was the—

A. When I joined ETS, Charles was the president and CEO; Larry Ginsburg was the chief operating officer and I was the CFO.

Q. And what other departments did they have in ETS?

[46]

A. They were manager-level people in charge of the actual field operations and when I joined the company, Jason Edwards, who was Charles' son, was in charge of field operations. He was in charge of maintaining the phones and collecting the money for the Atlanta area.

Q. Just for the Atlanta area?

A. Yes.

Q. Well they were in 38 states. Who collected. . .

A. Well they only recently were in 38 states. They had a structure of regions. Florida being a region. The Southeast, out of Atlanta, there were a few phones. Most of the phones were in the Atlanta—the immediate area, with a few phones in North and South Carolina, probably 100 in Tennessee. They just had local offices. In some cases they had independent contractors collecting the money and maintaining the phones.

Q. Who would those independent contractors be, individuals or corporations?

A. Individuals or companies that were in the business of maintaining payphones.

Q. So they didn't have offices in all of these states that they were working in?

A. No. When I was involved there, we probably branched into five or six states. We were probably up to about 12 states at that point.

[47]

Q. That's all?

A. Yeah. The growth has been phenomenal. One of the last things I did in March and April of '99 was to consummate the acquisition of a company in Texas, which got them into about seven or eight new states. It got them into Oklahoma; it got them into the Chicago area; it got them into the upper Midwest.

* * * * *

[51]

Q. How did this company look on a cash flow basis while you were there?

A. ETS Payphone was not cash flowing positive. It was a negative cash flow—significant dollars, and PSA was a very high positive cash flow.

Q. You were always doing separate analysis for each company?

A. Yes.

Q. You never combined the two for—

A. We combined them on a statement basis, because Charles, you know, wanted to present a picture of the total operation.

Q. Okay. Now the ETS Payphones, you say, from a cash-flow viewpoint was not making money, correct?

A. That's correct.

Q. What did—what were the cash-flow sources for ETS Payphones? When you say it was losing money, where was the money coming from and where was it going?

A. The money came from three basic sources. One is the actual coins collected from the telephones themselves. The second was what's called dial around, which

is when someone dials an 800 number to access a long distance carrier, the law was passed that the payphone is entitled to receive some compensation. So the individual long-distance carriers were supposed to send money every month to the [52] payphone owners or operators. Then the third source of funds was advances out of PSA.

Q. Advances from PSA?

A. From PSA.

Q. So would you say payphones themselves are a profitable business based on what you learned at ETS? Actually were ETS' payphones profitable?

A. No.

Q. ETS' payphones did not make money?

A. No, they did not.

Q. And by operations, we mean the money come into the actual payphones and the maintenance of them and paying employees for servicing and administration, payphones at ETS were not profitable?

A. Correct.

Q. Do you know if they were losing money before you got there?

A. Yes, they were.

Q. And when you left they were still losing money?

A. Yes.

Q. Was Charles Edwards aware of that?

A. Yes.

Q. Was there ever any meetings with him about this, where this was discussed that we're losing money on these payphone operations, what should we do?

[53]

A. Numerous.

Q. Did he say let's just go out and sell more payphones to remedy this?

A. He would demand more efficiencies in the operations. He would look at is dial around being sent on time, which, of course, it wasn't because there were continual lawsuits back and forth between the payphone owners association and the long distance carriers saying we don't agree with the court. Whatever the courts came up with as a split, the other side would counter sue that felt that they had lost. So we were owed millions of dollars in dial around. But even then—

Q. But every payphone operator had that problem.

A. That's right. The expenses were too high, and Charles' attitude was, if we can get to a critical mass with the number of phones, then the expenses would even out.

Q. In your dealings with Charles Edwards and this whole company ETS/PSA, were they more in the business of operating payphones or just selling these payphones?

A. ETS was heavily involved in operating payphones.

Q. They were?

A. We had hundreds of employees on the street collecting phones, cleaning phones. Charles had extremely high standards, that he wanted the phones to be

maintained, those added to the cost inefficiencies. For example, he [54] wanted every payphone actually physically visited by a technician twice a month. Collections twice a month. There were phones that didn't call for collections twice a month. It's a very difficult business at best.

Q. Well did he ever stress selling more and more payphones as opposed to operations?

A. The sale of payphones had nothing to do with ETS. That was strictly a PSA function and the people in ETS really weren't involved in that at all.

Q. Well you were also the controller of PSA, though, weren't you?

A. Right, but I had no contact with the sales side of that business.

Q. Because that was done through these independent marketers?

A. All through independent marketers.

* * * * *

ETS Payphones, Inc. - The Pay Phone Experts

ETS Payphones, Inc. has owned and operated public pay telephones since 1992. Growing from a local operation based in Atlanta, Georgia, ETS has expanded to a national firm with equipment and facilities located throughout the United States. ETS installs only the most technologically advanced Smart Phone equipment, which is monitored 24 hours a day from a central facility. With technicians and maintenance facilities located throughout the country, pay phones can be managed efficiently, with a timely response to every signal.

Welcome to ETS

"Smart Phone" Technology

Profitable Opportunities

ETS owns and operates pay phones throughout the country and offers a wide range of services that include the management and service of independently owned pay telephone routes. A recent study indicates that independent operators of public pay telephones, such as ETS, can provide a higher level of service while incurring lower costs than the larger, less efficient operators.

The broad base of operations built by ETS Payphones, Inc. crosses many states and governmental boundaries and provides a high quality, efficient management system for pay phone owners from coast to coast. This includes the management of pay phone equipment located in national fast food chains, restaurants, hotels, convenience stores, airports, sports arenas and other facilities that include pay phones on site.

For the pay phone owner, the need to contract individual management agreements for pay phone equipment on a state-by-state or region-by-region basis is eliminated. Both the site owner and pay phone owner can benefit from the experience, operating efficiencies and management expertise provided by ETS Payphones, Inc. Profits are maximized and all reports on pay phone activity are provided from one central location, in a timely manner.

PLAINTIFF'S EXHIBIT 22

BEST AVAILABLE COPY

ETS Offers the following services:	
• Replacement of antiquated equipment in existing locations • Locating sites suitable for public pay phones • Securing a local operator service provider • Securing a long-distance service provider • Coin box collections	• Installation of new equipment • Internal pay phone equipment maintenance • External pay phone equipment maintenance, including cleaning • 24-hour equipment monitoring of "Smart Phones"

[redacted]

ETS PAYPHONES

1490 Westfork Drive
Suite G
Lithia Springs, GA 30122
770-819-1600
Fax - 770-819-1685
E-mail: info@etspayphones.com

[redacted]

ETS

Welcome to ETS

"Smart Phone" Technology

Profitable Opportunities

The Smart Phone Difference

Independent pay phone owners and operators are changing the landscape of the pay phone industry. Much of the pay phone equipment currently installed is obsolete. Independent pay phone operators, such as ETS Payphones, Inc., who install the most technologically advanced equipment, have a competitive edge over older, larger operators.

The "Smart Phone" is the state-of-the-art telephone equipment of today's pay phone revolution. These phones are designed to "talk" with PC-based systems to manage every function of the pay phone from a remote, centralized location. The Smart Phone equipment installed by ETS is equipped with a micro-processor that incorporates self-diagnostic and reporting functions, with monitoring capabilities from a central location via computer modem. Older equipment does not have these "instantaneous" communication capabilities and must be serviced and managed individually, and usually, in person. Smart Phone technology results in superior "hands-off" operation, unparalleled efficiency and optimum profitability.

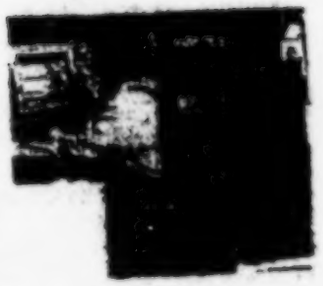
Smart Phones not only require less hands-on maintenance, but also can report equipment malfunctions and the number and type of calls being made from each phone. With this type of reporting, it's possible for a pay phone owner to know at all times how each pay phone is performing.

Pay phones must be operational to produce revenue. The longer a pay phone is out of service, the less opportunity exists for income. The monitoring capabilities built into Smart Phones signal the ETS control center when phones are not operating properly. When signaled with a problem, ETS quickly dispatches a maintenance technician. Phones can be returned to proper operating order rapidly, with as little interruption in revenue generation as possible.

All pay phones installed by ETS are equipped with the means to manage the following electronically:

[redacted] Phone

- The level of coins in the cash box.
- Summaries of phone activity.
- Processing of credit card and calling card calls.
- Telephone vandalism and other damage.



[redacted]

Opportunity doesn't always knock...
sometimes it rings!

[redacted]

Welcome to ETS

"Smart Phone" Technology

Profitable Opportunities

The Incomparable Pay Phone

More than two million pay phones are located in airports, restaurants, malls, public facilities, hotels and conference centers, as well as many other familiar places throughout the country. Is there any other means of communication likely to replace the pay phone? While technology advances, opening new channels and devices for communication, there really is no substitute for the pay phone. It is a fundamental and relatively inexpensive link in the chain of worldwide communications and is the medium of choice for telephone calls placed outside the home and place of business.

Pay phones have emerged as an exciting business opportunity in the rapidly evolving telecommunications market and have already proved to be a reliable means of generating income. In the past, pay phones were operated with little or no profit, much like a service in the public interest. Now, all of that has changed. Deregulation has provided the opportunity for corporate and private ownership, opening the door for profits for individual pay phone owners and operators.

Why Are Pay Phones Ringing with Opportunity?

Since private owners entered the field, the pay phone industry has grown into a highly profitable venture, with revenues in excess of $9 billion in 1996 alone. Competing manufacturers have been able to focus on the development of new technologies which promote greater operating efficiencies. With increased efficiency, pay phone profits have grown dramatically, and are expected to continue to escalate, with recent legislation that provides for additional compensation to pay phone owners.

Pay phone ownership offers a unique business environment:

- **It is virtually recession-proof.**
- **It can produce revenue 24 hours a day, 365 days a year.**
- **Pay phones can offer a steady, immediate cash flow.**
- **And, it may provide significant income tax benefits.**

Very few business opportunities can offer the potential for ongoing revenue generation that is available in today's pay telephone industry.

[redacted]

"There are millions to be made from owning pay phones."
- USA Today

ETS PAYPHONES

July 1, 2000

Dear Leaseholder:

Recently, I have received several questions from our Lessors. I would personally like to take some time and answer many of those questions for you and to assure you that ETS is as strong as ever and looking forward to continued growth:

Q. Is the payphone industry slowing down?
A. No, I don't think the industry is slowing down, although it is going through a number of changes - which include a widespread use of wireless phones and 1-800 calls (dial around calls).

Q. Are payphones losing calls because of wireless phones?
A. No, when you analyze the calls made on cellular phones, most of the calls are convenience calls that would not have been made from payphones. As such, most of these calls would ordinarily be made from homes or offices. The number of call attempts from payphones is about the same as they were in 1995. The difference is the amount of 1-800 calls (dial around calls) has increased dramatically, cutting down on traditional coin calls.

Q. Is revenue down on payphones overall?
A. Yes, not because of less call attempts, but because we are only collecting about 50% monthly of what is actually owed us for these dial around calls.

Q. Will receipt of dial around compensation improve for payphone companies?
A. We certainly have strong plans in place to increase this important revenue stream. In fact, we are working very closely with the industry's top association, the APCC, (National Payphone Association) to receive our fair payment for the use of our payphones (for dial around calls), as was mandated by the FCC in 1996.

Q. What about all the bad press relating to the payphone industry?
A. If you check, most of those articles were written by the wireless industry. I feel you will see a number of positive news articles about payphones in the near future. A lot of great things are happening with payphones!

Q. How big is ETS?
A. ETS is currently the second largest independent payphone provider with over 52,000 payphones in 38 states, the Virgin Islands and Puerto Rico. We are also the largest payphone provider in Mexico.

Q. How many offices and associates does ETS currently have?
A. We have 29 offices in the USA, the Virgin Islands, Puerto Rico – and four offices in Mexico. We currently employ approximately 500 associates.

Q. Why does it take 180 days after request for liquidation of some or all of my payphones?
A. As stated in our lease contract, liquidations may take up to 180 days.

www.etspayphones.com

PLAINTIFF'S EXHIBIT 23

Q. *What happens to my lease payments after I request a liquidation?*
A. They continue on up to the day your equipment is liquidated. You never lose income on your payphone equipment.

Q. *What is ETS' involvement with the National Center for Missing and Exploited Children and the Adam Walsh Children's fund?*
A. ETS is very committed to the National Center for Missing and Exploited Children and the Adam Walsh Fund. Our main thrust is to provide *123 dialing, mandated on all payphones (similar to 911), enabling any child who could access any one of the 2.3 million payphones nationwide to call toll free to the Center. A trained counselor would then be accessed on every *123 call - 24 hours a day/seven days a week. We have received the approval and support of the entire APCC and are now working with the Bell System and GTE Coalition. Our goal is to have this service provided on every payphone in the country. We have also committed to raise $500,000 for these two Centers in 2000. We are happy to report that we are already half way toward our goal! Incidentally, we are planning to place pictures of missing children inside our new advertising panels – mounted to our existing payphones.

Q. *Is ETS still sponsoring a race car?*
A. Yes, we sponsor Tommy Ballard in car #23 in the NASCAR Goody's Dash series. The race team is donating 25% of its winnings to the aforementioned Centers. Additionally, anyone who donates one dollar or more at any race receives a free 20 minute prepaid calling card picturing our association. We have enclosed one for you with this month's check.

Q. *Can I contribute to the National Center for Missing and Exploited Children?*
A. Yes, we will be sending out more details in the near future.

Q. *Is ETS developing any new programs for its lessors?*
A. Yes, once again, we will be sending you information on these exciting new programs.

Q. *Is ETS financially stable?*
A. Yes, we made a profit of nearly $8,700,000 last year and our profit potential looks even better for this year. ETS has become the leader in the payphone industry.

Hopefully, this will answer some of your questions. You will be receiving a number of news updates and programs that ETS is involved in. There has never been a better time to be in the payphone industry.

OPPORTUNITY DOESN'T ALWAYS KNOCK, SOMETIMES IT RINGS!

Sincerely,

Charles E. Edwards

Charles E. Edwards
Chairman of the Board

"Service is our commitment.

PRO INSURANCE AGENCY, INC.

Saving and making you money is our business."

Get a Quote
Investment Opportunities
Industry News
Current Rates
Additional Services
Contact Us
Home

ETS Payphones

Opportunity doesn't always knock...sometimes it rings!

Deregulation of the phone industry has made it possible for almost anyone to participate in the lucrative, multi-billion dollar payphone industry. Now ETS Payphones, Inc. makes it even easier for the novice by making available their proven management, maintenance and leasing programs.

ETS Payphones, Inc. is a payphone operating company which owns and operates its own phones with day-to-day management and computer-controlled maintenance systems.

ETS Payphones delivers... Service, Quality, Commitment!

Management Program

We will manage your phones for you if you wish to become less active in management and maintenance.

Lease Program

Under certain conditions, we will lease your phone from you and pay you a monthly rental fee. This will allow you to become detached from the day-to-day demands of the payphone business.

Management Program Requirements

Your phones must be "smart" phones.

The software must be compatible with ETS software management systems.

You furnish site and site contact with owner.

Payphone must be located in states in which ETS is operational. New territories are opening on a regular

PLAINTIFF'S EXHIBIT 24

basis.

We provide limited maintenance services for $45.00 monthly, and full maintenance services for $75.00.

Lease Program Requirements

The phone and related equipment must be new and meet ETS specifications.

Lease term of 60 months.

Introduction rental fee of $82.00 per month, totaling $984.00 per year.

Lessor is owner of equipment that may be depreciated (See your tax advisor).

Lessor (owner) options at lease-end:

1. Lessor may renew the lease at their existing lease rate.
2. Lessor may keep the phone and location and operate it
3. "Option to Sell Agreement" to purchase the payphone and location from owner at lease-end.

Please contact ETS for complete information on any of the above described programs.

The Payphone Industry

Most Cash Business

Growth Each Year

Depression Proof

Consumable Product

No Inventory

Be Your Own Boss

No Employees

Easy to Learn

Part or Full Time

ETS PAYPHONES

Atlanta, Georgia
770-819-1600 * FAX 770-891-1685

Copyright © 2000 Pro Insurance Agency, Inc.
All rights reserved.

"Service is our commitment.

PRO INSURANCE AGENCY, INC.

Saving and making you money is our business."

Get a Quote
Investment Opportunities
Industry News
Current Rates
Additional Services
Contact Us
Home

The Most Often Asked Questions & Answers About the ETS Payphone Equipment Lease Program:

Q. Who is ETS Payphone, Inc?

A. Ets Payphones, Inc. is the largest, privately held payphone company in the United States. ETS has annual sales in excess of $100 million and is headquarted in Atlanta, Georgia. ETS owns, leases and services "customer owned, coin operated telephones" in 32 States, Mexico and US Virgin Islands. As of June 1, 1999 ETS has a total of approximately 65,000 payphone locations.

Q. What is the ETS Payphone Equipment Lease Program?

A. The ETS Equipment Lease Program is made available to the owner and pays the owner a monthly lease payment of $82 per month, per phone, regardless of the location of the phone. The payphone owner purchases the "smart" payphones from an independent Marketing Group that will handle all the leasing arrangements with ETS. The "smart" payphone meets all the technical specifications required throughout the payphone industry.

Q. What is the cost of each "Smart" Phone?

A. The cost of each "smart" payphone is $7000.

Q. What is the equivalent yield of the lease payment that the payphone owner receives when the owner leases a payphone to ETS, and receives the $82 per month lease payment per payphone?

A. The Payphone Owner's Lease Payment is equivalent to a 14.1% return per year.

Q. Can I purchase a "Smart" Payphone directly from ETS?

A. NO! ETS is a payphone operating company and does not sell payphones. "Smart" payphones are purchased only from Independent Marketing Groups selling these payphones.

Q. What about liquidity?After the payphone owner has entered into a lease agreement with ETS, can the owner get their money back, and when?

A. Yes! ETS will purchase the payphone from the owner/lessor at anytime during the period of the lease, for the original purchase price of the phone, without any penalty.

Q. What is the normal term of the lease agreement?

A. The normal term of the lease is 5 years.

Q. What are the owner's options at the end of the term of the lease?

A. At the end of the term of the lease the owner has the following options:

1. Renew the lease with ETS at the existing lease rate.
2. The owner may choose to keep the phone on location and operate the phone.
3. ETS will purchase the phone at the end of the term of the lease from the owner for the full purchase price, without any penalty.

Q. What is the minimum number of payphones necessary to qualify for the ETS lease program?

A. The minimum number of payphones required for the ETS Lease Program is just one (1) payphone.

Q. Is the ETS Payphone Leasing Program suitable for IRAs and other pension plans?

A. Yes. The ETS payphone leasing program is suitable for IRAs and other pension plans.

Q. If I want to invest my IRA or Pension Fund Money into the ETS payphone leasing program, what should I do?

A. To invest IRA or Pension Fund Money into the ETS Payphone leasing program, you should do the following:

1. Establish a "Self-Directed IRA" account with an ETS approved administrative trust company.
2. Transfer sufficient money from your existing IRA or Pension Fund into your new "self-directed IRA" account.
3. Instruct your new "self-directed IRA" account to purchase the number of payphones you desire, and to place them into the ETS Payphone Lease Program.

Q. Is there a tax advantage to owning a Payphone (I.E.)?

A. The owner of payphone equipment may be able to depreciate the cost of that equipment (individual owners should contact their tax advisor since we do not give tax advice).

Q. Is it possible to see a sample of the lease agreement with ETS?

A. Yes. ETS will be pleased to send a sample lease agreement to each person that the agent requests the information to go to.

Q. What is the procedure to purchase one or more "Smart" Payphones and then arrange to lease them to ETS?

A. Payphone owners purchase their payphones from a Marketing Agent that sells "smart" payphone(s) and arrange for the phone(s) to be placed in the leasing program with ETS.

If an IRA or pension account is involved, the Agent can also assist to see that all paperwork is properly completed and sent to the proper people for processing.

Q. What paperwork do I receive from the company selling the payphone(s) and from ETS if I choose the ETS Leasing Program?

A. Upon receipt of your purchase agreement the company supplying the phone(s) will acknowledge receipt of your order and ship everything needed to ETS.

Q. After purchasing my payphones, when can I expect to receive my first lease payment from ETS?

A. All payphone owners can expect to receive their first lease payment 60 days after the purchase of your payphone, and their paperwork has been received and acknowledged by ETS. After the first lease payment is sent, all subsequent payments are sent monthly. Checks are sent on either the 1st and the 15th of each month.

If your payphone lease is in your "self-directed IRA" the lease payments will be sent directly to your IRA account.

Q. Does ETS provide other types of maintenance programs for payphone owners?

A. Yes. ETS provides two management/maintenance programs in addition to the equipment leasing program. However, both of these management programs are for people who wish to be involved in the day to day management of their payphones and both programs require that maintenance fees to be paid to ETS on a monthly basis. In addition neither management program is suitable or approved for IRAs or other pension funds.

ETS Payphones, Inc.

ETS payphones, Inc. is located in the following states:

- **Alabama**
- **Arizona**
- **Arkansas**
- **California**
- **Colorado**
- **Florida**
- **Georgia**
- **Illinois**
- **Indiana**
- **Iowa**
- **Kansas**
- **Kentucky**
- **Louisiana**
- **Maryland**
- **Michigan**
- **Minnesota**
- **Mississippi**
- **Missouri**
- **Nebraska**
- **New Jersey**
- **New Mexico**
- **New York**
- **North Carolina**
- **Ohio**
- **Oklahoma**
- **Pennsylvania**
- **South Carolina**
- **Tennessee**
- **Texas**
- **Virginia**
- **West Virginia**
- **Wisconsin**

Copyright © 2000 Pro Insurance Agency, Inc
All rights reserved

"Service is our commitment.

PRO INSURANCE AGENCY, INC.

Saving and making you money is our business."

Get a Quote
Investment Opportunities
Industry News
Current Rates
Additional Services
Contact Us
Home

Contact Us

(330) 758-0995
1-800-546-0997
FAX: (330) 758-0998
proinsur@cboss.com

John Prokop and Lisa Marie
833 Boardman-Canfield Rd.
Suite 101
Youngstown, OH 44512

Copyright © 2000 Pro Insurance Agency, Inc.
All rights reserved.

[PLAINTIFF'S EXHIBIT 25]

DECLARATION OF RANDALL WILLEY

I, Randall Willey, declare under penalty of perjury that:

1. I have personal knowledge of all the facts stated herein.
2. I am currently 75 years old. I live in St. Charles, Missouri. I am also retired.
3. I became aware of ETS Payphones, Inc. ("ETS") approximately three years ago through Bob Sewell, who worked through Communications Marketing Association, located in Boca Raton, Florida.
4. I purchased a total of 7 payphones from ETS. I purchased three payphones for $6,000 apiece and four payphones for $7,000 apiece. My total investment in those payphones was $46,000.
5. According to information received from ETS, my payphones are located in South Carolina, Georgia and Texas. However, I have never actually seen any of my payphones. None of my payphones are located near my residence in Missouri.
6. I invested my money in ETS because it appeared to be a good investment and offered a good rate of return. I did not enter into this investment with the intention of actually operating any payphones myself.

7. I leased all my payphones back to ETS. I receive monthly lease payments from ETS of approximately $82 per payphone.

8. I signed an agreement with ETS in which ETS promised to buy back my payphones within 180 days at my request.

9. I have always received my monthly lease payments from ETS. I have not yet exercised any buyback agreements.

10. I do not manage any of my payphones nor do I intend to ever manage any of my payphones. In fact, I do not possess the expertise to manage payphones. All my payphones are managed by ETS.

11. Neither ETS nor any of its representatives have ever informed me, either before or after making my investment, that the receipt of my monthly lease payments is dependent on the sale of payphones to new ETS investors.

12. Neither ETS nor any of its representatives have ever informed me, either before or after making my investment, that ETS payphone operations are not profitable.

13. In January 2000, I attended a meeting in Boca Raton, Florida at which Charles Edwards, the Chief Executive Officer of ETS, spoke. At that meeting, Mr. Edwards stated that ETS was profitable. He specifically stated that the income earned from payphone operations and advertising was sufficient to offset the cost of operations.

14. Neither ETS nor any of its representatives have ever informed me, either before or after making

my investment, that if a significant number of investors decided to exercise their options to sell their payphones back to ETS, that ETS did not have the available financial resources to satisfy its obligations.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed this 22 day of September 2000.

/s/ RANDALL WILLEY
RANDALL WILLEY

IN THE UNITED STATES DISTRICT COURT FOR
THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

No. 1:00-CV-2532

SECURITIES AND EXCHANGE COMMISSION, PLAINTIFF

v.

ETS PAYPHONES INC., AND CHARLES E. EDWARDS,
DEFENDANTS

DECLARATION OF CHARLES E. EDWARDS

1.

I, CHARLES E. EDWARDS, am over the age of eighteen and am competent in all respects to make this Declaration. This Declaration is made and presented in support of the "Opposition of Defendant Charles E. Edwards To Plaintiff's Application for Preliminary Injunction, Asset Freeze, and Other Equitable Relief," submitted on my behalf in the above-referenced action.

PERSONAL BACKGROUND AND INFORMATION

2.

I am the controlling shareholder, the current Chairman of the Board, and, until early 2000, I was the Chief Executive Officer, of ETS Payphones, Inc. ("ETS"), a Georgia corporation. James Blyth is now the President and Chief Executive Officer of ETS. ETS filed a voluntary petition under Chapter 11 of the Bankruptcy Code on September 11, 2000, in Delaware. The lead debtor in

the bankruptcy proceeding is Payphone Systems Acquisitions, Inc. ("PSA"), a Delaware corporation and wholly owned subsidiary of ETS. ETS' decision to voluntarily file its bankruptcy petition, and its proposal for settlement of the instant matter as preliminarily agreed to by the Securities and Exchange Commission (the "SEC"), is discussed in greater detail below.

3.

I am 62 years old. I have been married for 17 years, and my wife and I have lived in the Atlanta area continuously since 1989. After graduating from high school, I served four years in the Air Force. Since that time, I have been involved in a number of businesses, including, since 1989, the telecommunications business.

4.

I began in the pay telephone business in about 1993 by serving as marketing director for Global Communications, a company that, among other things, sold pay telephones to end users. In 1994 I formed ETS; it was incorporated in Georgia. At its inception, ETS sold and managed pay phones, engaging in 22 sales and lease agreements in 1994. In September of 1995 a company then related to ETS received a letter from the SEC, a copy of which is attached as *Exhibit 1*. As described in more detail below, in 1995, the SEC conducted an informal inquiry of my pay telephone business. As a result of the SEC's investigation, I participated in several meetings with the SEC during which ETS' attorney and I were provided suggestions by the SEC lawyer on how to conduct the business to avoid running afoul of the SEC laws and rules. I made several fundamental changes to the business in a good faith effort to comply with the letter and spirit of the SEC's

suggestions. One of the changes, was to set up a new wholesale telephone company, and use the services of independent distributors who would, separate from ETS, market pay telephones.

5.

In addition to ETS and its wholly owned subsidiary, Payphone Systems Acquisitions, Inc. ("PSA"), I am currently the controlling shareholder, directly or indirectly, of a number of other business concerns which support the business of ETS, including: (1) Twinleaf, Inc., which provided management and consulting services to ETS and PSA based upon a flat fee payment per telephone sold; (2) Legends Communications, Inc., which provided switch-based long distance telephone services to ETS managed payphones and ETS facilities; (3) TPL, Inc., which manufactures prepaid calling cards and printing for ETS; (4) Twinleaf Media, Inc., which owns patent rights to and markets an advertising kiosk for payphones; and (5) Axis, Inc., which holds patent rights to and markets a three-dimensional advertising concept for various locations, including payphones. Twinleaf also owns IAQ Duct Doctor, Inc., which is in the business of cleaning and servicing heating and air conditioning ductwork.

6.

I have no intention of engaging in the pay telephone business with any business other than ETS. I have no intention of engaging in any business involving the sale of securities unless and until questions regarding ETS are resolved.

7.

I have an ongoing interest in and am dedicated to various charitable community issues. Included among my efforts in this regard is work and contributions to the Atlanta Union Mission over the past three years and a national program that I have spearheaded through ETS. This is a program for lost or missing children called "Star 1, 2, 3." This program, established in conjunction with the American Public Communication Counsel and the National Center for Missing and Exploited Children, will enable lost, missing or kidnapped children anywhere in the nation to be able to pick up a public payphone at any time and dial "Star 1, 2, 3" which will put them directly in contact with a private counselor trained to deal with such situations. I am a Board Member of the International Center for Missing and Exploited Children.

ETS'S STRUCTURE AND OPERATIONS

8.

ETS, during all times relevant herein, was engaged in the business of operating coin operated pay phones for a profit. The phones are primarily customer-owned, coin/coinless-operated telephones ("COCOTs"), although ETS also operates phones that are not owned by third parties.

9.

ETS is the largest privately owned payphone operator in the United States and one of the top three largest payphone companies in the United States. ETS currently operates, maintains or services tens of thousands of payphones in thirty-eight states throughout the continental United States, Puerto Rico, Mexico and the

Virgin Islands. ETS has one phone in Canada. ETS employees over 440 people, operating out of 32 offices located throughout the United States and four offices in Mexico.

10.

PSA, ETS's wholly owned subsidiary, purchases telephone equipment and locations for payphones and then sells the equipment and location (the "COCOT Interest") to independent marketing organizations (the "Distributors"). These Distributors, in turn, sell COCOT Interests, among other products, to individuals and others who want to own a COCOT Interest (the "COCOT Owners"). The primary Distributors include: B.E.E. Communications (now known as BCI), located in Cartersville, Georgia; Hayes Communications, located in St. Petersburg, Florida; and National Communications, located in Boca Raton, Florida. I have no ownership or control over any of these Distributors.

11.

ETS has no knowledge about the identity of persons who may be offered purchase opportunities by the Distributors for COCOT Interests or other products. When the Distributors sell the COCOTs, the Distributors provide their own information packages describing the owner's options for operating the COCOT. These options might include, for instance, operating the phone themselves; placing the phone with a management company; or leasing the COCOT Interest to a payphone operator, including, but not necessarily limited to, ETS. There are numerous other companies that provide payphone management services, including one larger than ETS and several others that service more than 10,000 payphones.

12.

Before 2000, Distributors were not allowed to make any representation on behalf of ETS or its programs, but instead directed the COCOT Owner as how to obtain additional information from ETS. Once contacted by a COCOT Owner, ETS would then handle all paperwork and negotiations with any COCOT Owner interested in a relationship with ETS. Beginning in 2000, in those states where the Distributors were registered under Business Opportunity laws, the Distributor was allowed to provide ETS materials to an interested COCOT owner.

PSA'S ACQUISITION OF PAY TELEPHONE EQUIPMENT AND LOCATIONS AND THE COSTS THEREOF

13.

PSA uses three methods of acquiring payphones for sale to Distributors: (1) the purchase of payphones in operating locations from existing owners; (2) the purchase of payphone components from equipment wholesalers, which PSA then assembles into complete units; and (3) the purchase of complete payphones from manufacturers. The first method is the most common. In substantially all cases, either the complete payphone or at least the basic electronic components are products of one of three manufacturers: Elcotel, Protel or Intellicall.

14.

During 1999 and 1998, approximately 90% and 70%, respectively, of the payphones acquired by PSA were acquired in locations from existing owners, with the

remainder of 10% or 30%, respectively, being purchased from either manufacturers or equipment wholesalers.

15.

Although each purchase of a payphone already situated in a specific location is individually negotiated with the seller, the following are general principals used in valuation when PSA purchases payphones in existing locations:

a. PSA determines all sources of revenue which includes coin, long distance, dial-a-round (800 numbers), intra-Lata (local areas prescribed by the local phone company), credit card calls, 1-800 collect calls, advertising, etc.

b. PSA subtracts certain costs such as the phone line plus the payments to the location owner, taxes and any local license fees. PSA considers the monthly revenue less such costs to be the "gross net."

c. PSA pays for the typical payphone already situated in a specific location approximately 30 times the monthly gross net, although multiples have ranged generally from 24 to 36 times the gross net, based on terms of the location lease, the number of units involved in the purchase, the desirability to PSA of particular locations, the age and condition of the equipment (which can vary the value by plus or minus 5%), and other factors.

16.

PSA's acquisition program depends on market conditions and transactions available at the time, but the

following is a general description of the economics based on recent conditions:

a. Before September 1999, the average price paid by PSA for a payphone in location was approximately $3,787 and that cost has not materially changed;

b. After a phone route is purchased, PSA either upgrades or totally replaces the payphone equipment for an additional average cost of approximately $1,200 per phone, resulting in an overall cost of approximately $4,987 per phone in location purchased;

c. In addition, approximately 20% of the payphones acquired existing locations will need to be moved to a new location, resulting in a further approximate $1,200 cost for the units that are moved.

17.

When PSA installs a payphone at a new location, it generally incurs the following costs:

EQUIPMENT	COST
Smart Phone-average (current range is approximately $930 to $1,100)	$1,000*
Enclosure and Pedestal	350
Mast Pole and Signs	75
Misc. (Bolts, Wires, etc.)	25
Signing Bonus paid to location owner–average (current range is approximately $50 to $1,500)	400

Payment to the locator–average (current range is approximately $150 to $400)	300**
Concrete Pad	300
Labor	300
TOTAL	$2,750

* Assumes payphone is newly purchased from manufacturer or wholesaler; if purchased in location, total cost approximates $5,000, as described above, and some of the foregoing costs are avoided.

** Most locators are independent contractors (not affiliated with Distributors). Some are employees of PSA.

18.

Approximately 30% of all new installations will not develop sufficient revenue to meet expenses, requiring a relocation of the phone to another new location, resulting in an additional cost of approximately $1,200 per phone.

19.

PSA normally must support each new installation for approximately six months before it becomes profitable.

20.

As a result of the above-described factors, the average total cost of a newly installed phone to reach break-even is estimated at close to the same as the overall amount which is expended when phones already situated in a specific location are purchased.

21.

Initially, ETS sold payphones for $3,600 to the Distributor, with a suggested resale price of $4,500. Over the years the price has increased. Most recently, PSA typically sold payphones to Distributors for $5,250, with a suggested resale price from the Distributor to the Purchaser of $7,000, although PSA does not participate in that transaction.

22.

Once a payphone is purchased by PSA from a manufacturer or wholesaler, PSA must perform the following to each payphone before it can be placed in service, adding to the payphone's value: (1) find a location for the unit; (2) negotiate and document appropriate arrangements with the location owner; (3) pay commissions to the locator; (4) order, purchase and install the payphone and ancillary equipment; (5) if necessary, make the front end payment to the location owner; (6) program and set the internal parameters of the payphone; (7) contract with the long distance carrier; (8) order a payphone line from the local carrier; (9) test the units; (10) obtain any necessary licenses from regulatory bodies; and (11) create appropriate records and controls.

ETS MANAGEMENT OPTIONS
FOR PAY TELEPHONES SOLD BY DISTRIBUTORS

23.

When a Distributor attempts to sell payphones, the Distributor, among other options, presents the availability of the ETS management options to the prospective COCOT Owner, and advises the prospective COCOT Owner how to obtain additional information

from ETS. Where permitted by Business Opportunity Law, the Distributor may present the ETS disclosure document.

24.

If a COCOT Owner thereafter initiated contact with ETS, ETS then provided the COCOT Owner with information regarding the three options available for management/lease of the payphone.

25.

The sale of the payphone by the Distributor to the COCOT Owner did not employ high- pressure sales tactics. The purchase agreements used by the Distributors generally provided for a fifteen (15) day cancellation period at the election of the COCOT Owner.

26.

Moreover, in a typical transaction, a period of time (from several days to up to several weeks) passed before the COCOT Owner receives any written information about the services offered by ETS, including the Payphone Program involving the lease and option to sell arrangements. Once the COCOT Owner received the information from ETS, he or she was free to consider it in consultation with any other person, including attorneys, accountants, or other financial advisers. In fact, the materials prepared by and delivered to COCOT Owners by ETS specifically *encouraged* COCOT Owners to "read all of the lease carefully, and take time to decide if it is right for you. If possible, show your lease to an advisor (i.e., a lawyer CPA, etc.)."

27.

The materials provided by ETS to COCOT Owners upon their request presented three options for payphone management.

28.

Under Option I, the "Internal Maintenance Program," the COCOT Owner engages ETS to perform certain installation, maintenance and management services for the COCOT Owner's phone. Under this option, ETS does not find locations for operation of the payphones, secure agreements with the locations' owners, or collect the revenue generated therefrom. The standard fixed fee for these ETS services is approximately $45 to $65 per month per COCOT, depending on the location.

29.

Under Option II, the "Turnkey Maintenance Program," PSA obtains a site location for each of the COCOT Owner's payphones, and ETS performs a more comprehensive range of services for the COCOT Owner, including collection, counting, bagging and depositing all coins. ETS's fixed fee for this service is approximately $75 per month per payphone. Under this option, the owner retains all revenues from the payphone.

30.

Under Option III, the "Payphone Equipment Lease Option" (the "Lease Program"), the COCOT Owner leases the COCOT to ETS and ETS assumes full responsibility for all aspects of their placement, maintenance, operation, etc. The location for each payphone is selected by computer from a general database of locations.

31.

Under the most recent Lease Program, ETS pays the COCOT Owners a fixed rental rate of $82 per month per payphone, and ETS retains all revenues generated by the leased payphone. Certain other COCOT Owners receive a fixed rental rate of either $75 or $80 per month per payphone. The monthly rate varied depending on when the COCOT Owners entered into the ETS Lease Program. The rental payments increased with regard to the retail price of the phone (e.g., COCOT Owners received either $75 or $82 per month per payphone, respectively, compared to the then retail value of the payphones of either $4,500 or $7,000). The COCOT Owner has no benefit or risk relating to the profitability or performance of the COCOTs, but receives only a fixed net monthly rental from ETS.

32.

The vast majority of COCOT Owners who do business with ETS do so under the Lease Program, with the option to sell the payphone to ETS (collectively, the "Payphone Program").

DETAILS OF THE PAYPHONE PROGRAM

33.

Under the Payphone Program, in effect for all leases entered into prior to February, 2000, ETS gives the COCOT Owner an option to sell the payphone to ETS prior to or upon expiration of the lease term for a fixed price equal to the original price per payphone, with no penalties for early termination of the lease. A true and correct copy of an ETS Equipment Lease Agreement entered into prior to February, 2000, is attached hereto as *Exhibit 2*.

34.

Specifically, under the Payphone Program, in effect for all leases entered into subsequent to February, 2000, ETS gives the COCOT Owner an option to sell the payphone to ETS prior to or upon expiration of the lease term for a fixed price as follows:

a. At any time between the nineteenth month of the lease term and prior to the completion of the sixtieth month of the lease term, for the purchase price (currently $7,000) less the monthly rental times twelve;

b. Subsequent to the completion of the sixtieth month of the lease term for the purchase price (currently $7,000).

35.

A true and correct copy of an ETS Equipment Lease Agreement entered into after February, 2000, is attached hereto as *Exhibit 3*. This change was made because we discovered that some of the Distributors' agents were encouraging COCOT owners to sell their phones and buy new ones merely to generate sales commissions.

36.

Upon termination of the lease under Option III, the COCOT Owner may renew its lease with ETS, cause ETS to purchase the payphone, or take control of the payphone with the possibility of selling the payphone, leasing it to, or entering into a management agreement with another operating company, or self-managing the payphone.

37.

ETS has always attempted to provide potential COCOT Owners with sufficient information about ETS and its officers to ensure they make an informed decision. For example, attached hereto as *Exhibit 4* is a true and correct copy of disclosure documents provided by a registered Business Opportunity Distributor to COCOT Owners, which contains the disclosure documents provided by and regarding ETS, compiled by ETS in accordance with the Federal Trade Commission disclosure regulation rules.

RELIANCE ON ADVICE OF PROFESSIONALS AND SEC STAFF SUGGESTIONS

38.

ETS started the Lease Program in 1994. ETS expended considerable resources engaging various attorneys to provide not only guidance on the structuring of the debt-financing of the Lease Program, but the continued operations of ETS. ETS began, and maintained, its Lease Program with the understanding that it was not involved in the sale of a "security." Attached as *Exhibit 5* is a copy of a 1996 opinion of counsel. Attached as *Exhibit 6* is a 1998 opinion of counsel. Each of these counsel advised ETS that the Payphone Program sales do not constitute the offer or sale of securities. In 1997, I learned that the Sixth Circuit Court decided a case that ruled that pay phones utilized in a sale, lease-back, buy-back program did not involve the sale of securities. I read the Court's opinion and relied on what it said as stating the law. I had no reason to believe that these opinions of counsel and this Court opinion were inaccurate in any way or a misstatement of the law.

39.

I also relied, in part, on discussions with attorneys, and a draft opinion letter from, the law firm of Powell, Goldstein, Frazer & Murphy LLP ("Powell Goldstein"). A copy of the draft opinion letter dated July 30, 1999, is attached as *Exhibit 7*. Powell Goldstein similarly advised ETS that the Payphone Program sales do not constitute the offer or sale of securities.

40.

My understanding that the Payphone Program sales do not constitute the offer or sale of securities was also based, in part, on the recommendations regarding the corporate structure of ETS's operations received during meetings with the SEC Staff in Atlanta in 1995. In 1995, the SEC Staff of the Atlanta office performed what was explained to me as an "informal investigation" of ETS and its operations. As part of this investigation, I met, along with Sheldon Friedman, an attorney engaged on behalf of ETS, with an SEC lawyer, Larry Grant. I explained to Mr. Grant, as I explained to the SEC during my later testimony in March 2000, that I have always been willing to undertake all actions necessary to ensure that ETS was operating properly and in accordance with all applicable laws.

41.

In addition, I showed to Mr. Grant the then-current financial statements of ETS.

42.

At the time of my meetings with Mr. Grant in 1995, ETS and the predecessor to PSA, Inter-Net, were directly involved in both the marketing and leasing

aspects of the business. During the course of these meetings with Mr. Grant, Mr. Grant recommended to me that ETS divest itself from the direct marketing and/or leasing aspects of the business and that ETS give more control over the payphones to the COCOT Owners.

43.

As a result of, and relying on, the recommendations received from Mr. Grant, I initiated the restructuring of the business operations of ETS and assisted in the start up of certain Distributors to ensure that ETS was removed from the direct marketing of the Lease Program. In addition, in order to provide the COCOT Owners with more control, I initiated the implementation of the liquidation option for owners to be enable them to sell their payphone(s) to ETS during or at the conclusion of their payphone lease terms.

44.

Following the 1995 "investigation" of ETS, I did not hear from the SEC again until 2000—some 5 years after their initial investigation.

45.

My understanding that ETS was not involved in the sale of "securities" was further reinforced from the review of opinion letters received from Phoenix Telecom, LLC ("Phoenix"), a corporation discussed further below, regarding this exact issue. Attached as composite *Exhibit 8*, are examples of opinion letters received by Phoenix regarding the propriety of its operations.

46.

My understanding that the Payphone Program sales did not constitute the offer or sale of securities was reinforced by the decision of the state securities regulators in Massachusetts, which found that the ETS Payphone Program sales were not securities. "Memorandum of Decision and Order," Securities Division of the Commonwealth of Massachusetts, *In the Matter of Frances A. Rahaim Financial Services*, No. E-2000-22, Securities Division, Office of the Secretary of the Commonwealth of Massachusetts (July 11, 2000). A copy of this decision and order is attached as *Exhibit 9*.

GAAP VS. NON-GAAP FINANCIAL ACCOUNTING CONVENTIONS

47.

ETS does not employ accounting conventions known as "Generally Accepted Accounting Principals" ("GAAP") because it is not required to do so and because ETS management believes that non-GAAP financial statements more appropriately measure the company's financial performance.

48.

Accordingly, ETS prepared and maintained financial information (including income statements) in non-GAAP format. As part of its normal accounting practices, ETS *did* finalize its year-end statements of financial information, including income statements, in that format. The ETS "Statement of Income for the Twelve Months Ending December 31, 1999," attached as page 2 of Exhibit 3 to the Affidavit of Robert Lough (filed by the SEC in support of its Application for Preliminary Injunction, Asset Freeze, and Other Equitable

Relief) is a *preliminary, draft* Statement of Income. Attached as *Exhibit 10* to this Declaration is a true and accurate copy of the final version of the ETS "Statement of Income for the Twelve Months Ending December 31, 1999."

49.

There are significant differences between the financial statements conforming to GAAP and those which are not prepared in accordance with GAAP, which are discussed below.

50.

Under GAAP, the financial statements treat the leased payphones as assets of the company, being acquired by it under a financing arrangement, although the COCOT Owners hold legal title to their payphones and may never elect to sell them to the Company. The payments made by the company under lease agreements are treated as interest expenses and the underlying leases are treated as capital leases.

51.

In the GAAP financial statements, the company's liabilities include $164.4 million that would become due to the COCOT Owners if all of them exercised their sale options. If a COCOT Owner exercises the sale option, the amount paid by the company is recorded as a reduction in the liability.

52.

In addition, the GAAP financials value the company's payphones at their historic cost, less depreciation. The company believes that the current fair market value, for which many of the payphones could be liquidated promptly, exceeds their carrying value on the GAAP

statements. Thus, this unrealized appreciation is not reflected in the GAAP financial statements.

53.

In contrast, under non-GAAP accounting conventions, the payphones leased by the company are treated as assets of the COCOT Owners and not the company. Therefore, the Company does not treat depreciation of the payphones as a company expense and does not claim a tax deduction for such depreciation on its tax return. The COCOT Owners get that tax benefit.

54.

Under non-GAAP accounting standards, the payments made by the company under the lease arrangements are treated as rental expense in the financial statements and the underlying leases are treated as operating leases. If a COCOT Owner exercises the sale option, the amount paid by the company is recorded as an expense in the company's results of operations when paid and the payphone becomes a company asset.

55.

Importantly, under non-GAAP accounting methods, revenues from the sale of payphones are recognized in the company's results of operations when proceeds have been received from the Distributor.

56.

The resulting differences in treatment in financial statements prepared under GAAP versus non-GAAP are that in 1999 (for example), under GAAP, the company incurred a $26.8 million loss whereas under non-GAAP, the company showed net income of $8.7 million. The principal reason for these differences is the treat-

ment of the revenue from Payphone Program sales (decreasing revenue from that stated in non-GAAP financial statements by $118.7 million) and the sale option given to COCOT Owners (increasing liabilities from that stated in non-GAAP financial statements by $164.4 million).

57.

Accordingly, assuming that any statements were made (and are properly attributed to ETS or to me personally) that the financial condition of ETS was positive, these statements were neither inaccurate nor misleading given that ETS was an operating company that did not keep records in accordance with GAAP accounting conventions, and paid taxes and monitored performance on that basis.

58.

The SEC has pointed to an ETS brochure that addresses how payphones can be profitable. The description in the brochure is of a single payphone. It does not address and was not intended to describe the profitability of a payphone management such as ETS.

59.

The SEC has repeatedly used the term "Ponzi scheme" to describe ETS's business. As has been explained to me, a Ponzi scheme is a scheme in which there is no real business and newly invested money is used merely to pay off old investors and convince them that they are "earning profits rather than losing their shirts." The ETS payphone business is not a Ponzi scheme. ETS and PSA used revenues raised by the sale of payphones to purchase phones and locations and ETS expected that its revenues from the operation of

the payphones would increase over time until ETS no longer needed to utilize revenues from individual payphone sales to support its other operations.

THE PHOENIX ACQUISITION

60.

On or about July 17, 2000, ETS Management Services, LLC ("ETS Management"), a wholly owned subsidiary of ETS, acquired the payphone business of Phoenix Telecom, LLC ("Phoenix") by entering into an asset purchase agreement and a management services agreement with Phoenix. Attached are true and correct copies of the asset purchase and management services agreements as *Exhibits 11 and 12* respectively.

61.

The impetus for the ETS/Phoenix transaction was to provide some protection for the Phoenix lessors concerning their executory lease agreements with Phoenix and which would in no way assure the Phoenix lessors' ability to enter a new lease with ETS. ETS's motivation for the transaction was also to avoid, or at least, to minimize, any negative impact on the public communications industry which could have resulted in a cataclysmic failure of the independent payphone provider network. In addition, ETS management, including me, believed that an expanded network would enhance ETS's possibilities for growth and prosperity pursuant to its business model.

62.

Under the management agreement, Phoenix's payphones were to remain operational and in compliance with state and federal utility regulatory requirements

during implementation of the ETS/Phoenix business transactions. Pursuant to the terms of the management agreement, ETS Management was to manage the day-to-day operations of the Phoenix payphones until new leases with ETS could be executed or alternative instructions obtained from Phoenix lessors.

63.

Pursuant to the asset purchase agreement, ETS Management acquired Phoenix's assets, identified in particular on the schedules attached thereto. In addition, ETS Management assumed certain liabilities of Phoenix and agreed to assign payphones to all Phoenix lessors who had yet to be assigned a payphone.

64.

Importantly, ETS agreed to offer Phoenix lessors the opportunity to enter into the ETS Lease Program with lease payments by ETS commencing July 1, 2000, the date on which Phoenix began missing lease payments. If all Phoenix lessors were to execute an ETS lease, ETS would have paid $1,080,000 in July lease payments as consideration for the assets acquired. ETS has paid more than $2,800,000 in lease payments to former Phoenix lessors.

65.

Prior to the acquisition of Phoenix by ETS, from approximately 1997 to December 1999, I personally acted as a consultant to Phoenix. As compensation for my role as a consultant to Phoenix, Phoenix agreed to pay me personally (and not ETS or any other corporate entity) $100 for every payphone lease agreement entered into by Phoenix. In fact, I received only about

one-half of the compensation promised by Phoenix for my consultation services.

PAYMENTS AND LOANS MADE BY ETS

66.

The SEC has alleged that I have personally taken "at least $14 million out of ETS through loans and fees paid to companies controlled by" me (Complaint, ¶ 49), which figure allegedly includes transfers in the form of loans of more than $11,600,000 to affiliates (SEC Brief, p. 9) and management fees on Payphone Program sales in excess of $3 million (SEC Brief, p. 9). In fact, there were funds loaned to Twinleaf by PSA, which, as of September 30, 2000, amounted to approximately $7.4 million.

67.

The SEC implies that these fees and loans were illegal or for the purpose of funneling the COCOT Owners' funds to me personally. These contentions are absolutely untrue. The loans made and management fees paid by ETS and PSA to various companies affiliated with ETS and/or controlled by me were accounted for in the records of the companies and were for legitimate business reasons, in the most part to support ETS's operations.

68.

For example, PSA did not perform the administrative function associated with payphone sales cash management. These functions were provided by Twinleaf. Twinleaf maintains computers, office equipment, document storage facilities and employs data entry personnel and accounting clerks, who perform the function

for PSA. Twinleaf also monitors lease payments to COCOT Owners. In addition, Twin Leaf provided the administrative, managerial, and consultation services of myself, Joel Geer and Joan Shepler, among others, with regard to PSA acquisitions, legal services, and other issues involved in the Payphone Programs, which services were rendered for the benefit of ETS and PSA.

69.

In return for performing these administrative and consulting services, since January 1, 1999, ETS/PSA has paid Twin Leaf a one-time management fee of $250 for each payphone sold by PSA (the fee was $125 per phone prior to that time).

70.

This one-time management fee represented the only managerial fee paid for the indefinite duration of the ownership of the payphone by a COCOT Owner.

71.

Each of these loans is properly reflected on the books and records of PSA and the companies receiving the loan. Given PSA's bankruptcy proceeding discussed in more detail herein, the loans are now assets of PSA, which are governed and protected by the bankruptcy court.

72.

I have submitted a stipulation on behalf of myself and Twinleaf to the Bankruptcy Court to liquidate the loans to Twinleaf in that forum. A copy will be provided to the Court.

THE BANKRUPTCY FILING OF ETS AND PSA

73.

The advent of and explosive growth in the use of both cellular telephones and the "1-800-Dial-Around" market has had a dramatic impact on ETS's business over the last two years. I estimate that the introduction of these enterprises into the market has reduced the profitability of individual payphones by as much as 25% or more. The introduction of the various companies by Twinleaf to support ETS was designed to offset these revenue losses.

74.

Despite the best efforts of ETS and PSA, as a result of these factors described above and other factors not within the control of ETS and PSA management, including independent market forces and the cost of certain litigation in New York over a claim to an ownership interest in ETS (not involving and unrelated to COCOT Owners), the business of ETS and PSA has experienced a significant downturn.

75.

On September 11, 2000, ETS and PSA filed for the protection of the Federal Bankruptcy Court in Delaware under Chapter 11 of Title 11 of the U.S. Code.

76.

I understand that a Creditors' Committee has been appointed by the Court and that ETS and PSA have met with the Creditors' Committee to discuss the status of the case and the plan for emerging from bankruptcy. ETS and PSA are working with the Creditors' Committee to develop a plan of reorganization.

THE PHOENIX ORDER

77.

On Monday, August 14, 2000, the Honorable Judge Jack T. Camp, United States District Judge, entered an Order in the case of *SEC v. Phoenix Telecom, LLC*, Civil Action File No. 1:00-CV-1970-JTC (N.D. Georgia). The Court found, among other things, that the payphone program sales of Phoenix Telecom were securities and entered a preliminary injunction and other relief sought by the SEC.

78.

Because ETS is engaged in a similar business using a similar business model (sale/lease/purchase options of payphones) and the order had obvious impact on ETS's opinions of counsel that its Payphone Program did not involve the offer or sale of securities, ETS voluntarily ceased all Payphone Program sales. This voluntary cessation of sales remains in effect pending a decision in the case filed by the SEC against ETS and me also in the Northern District of Georgia.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 11 day of October, 2000.

/s/ CHARLES E. EDWARDS
CHARLES E. EDWARDS

Telephone Equipment Lease Agreement

Lease Number: 10423

THIS AGREEMENT is made and entered into this 15th day of December, 1999, by and between ETS Payphones, Inc., a Georgia corporation (hereinafter as "LESSEE") and THOMASINA MARSELLA (Individual) (hereinafter "LESSOR").

Witnesseth:

WHEREAS, LESSOR, as owner of three (3) unit(s) of the telephone EQUIPMENT described on Exhibit A, attached hereto and by reference made a part hereof (the "EQUIPMENT") desires to lease said EQUIPMENT to LESSEE and LESSEE desires to lease said EQUIPMENT from LESSOR, all upon the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained and for good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. **LEASE OF EQUIPMENT.** Subject to the conditions herein, LESSOR hereby leases the EQUIPMENT to LESSEE and LESSEE hereby leases the EQUIPMENT from LESSOR.

2. **TERM.** This lease shall commence (the "Commencement Date") as of the date provided above and shall remain in full force and effect for an Initial Term of sixty (60) months thereafter (the "Initial Term"). Upon the expiration of said Initial Term, this lease shall be automatically renewed, for an additional Renewal Term of sixty (60) months (the "Renewal Term") unless at least ninety (90) days prior to the end of the Initial Term, either party gives written notice to the other that said party elects not to continue during the Renewal Term. The Initial Term and the Renewal Term are hereinafter collectively deemed the "Term" of this lease. The monthly rent payment for the EQUIPMENT during such Renewal Term shall be the same as the existing rate under the Initial Term. Should LESSOR choose to terminate this lease and take possession of the EQUIPMENT and LOCATION prior to the lease expiration, LESSOR may do so with a ninety (90) day written notice.

3. **RENT.** LESSEE shall pay monthly rental to LESSOR for the EQUIPMENT at the rate of $82.00 per month per unit. The first monthly rental payment shall be due on the "Commencement Date." All subsequent monthly rental payments shall be due on the 1st or 15th day of each succeeding calendar month in accordance with the "Commencement Date" through the Term hereof.

   Note: LESSOR Rental checks shall be sent out by U.S. Mail and shall be sent on the 1st or 15th day of each month. However, should the 1st or 15th of the month fall on a Saturday or Sunday, the checks shall be sent the following Monday.

4. **TITLE.** This Agreement creates a lease of the EQUIPMENT. Nothing contained herein shall be deemed or construed as enabling LESSEE to acquire the right, title or interest in the EQUIPMENT or LOCATION, except as set forth in Sections 15 and 16 hereof.

5. **NET LEASE.** Except as expressly provided herein, the parties hereto expressly agree to and acknowledge that this is a "Net Lease" requiring LESSEE to bear the entire cost of using the EQUIPMENT and LOCATION through the Term of this lease. LESSEE shall be responsible for, and shall pay all expenses of, insurance, repair, service and maintenance of the EQUIPMENT and of the

EXHIBIT 1

LOCATION. LESSEE may, at LESSEE's expense, contract with third parties to provide such repair, service and maintenance.

6. **LOCATION.** The location of the EQUIPMENT shall be set forth on Exhibit A. LESSEE shall be responsible for selecting the location for installation of the EQUIPMENT. Lessee has the right and sole authority to move EQUIPMENT to a new location should the original location prove to be unprofitable or prove to be in a high vandalism area. LESSOR will be notified in the event of site exchange and will receive notification of the address of the new location. LESSEE shall assign the applicable location lease to the LESSOR by a written letter of assignment between the parties. In the event that LESSOR terminates the lease prior to the expiration of the Term and elects to retain the EQUIPMENT, LESSEE shall assign the applicable location lease to the LESSOR by a written letter of assignment between the parties; otherwise LESSEE shall retain the rights to the location.

7. **INDEMNIFICATION AND INSURANCE.**

a. LESSEE shall indemnify and hold LESSOR harmless from and against any and all loss, damage, liability and expense (including, without limitation, reasonable attorney's fees) which LESSOR shall sustain as a result of (i) the loss of or damage to the EQUIPMENT because of fire, theft, collision, lightning, flood, windstorm, or any other casualty at any time during the Term hereof, or (ii) the death of or injury to any person or damage to any property as a result, in whole or in part, of the use or maintenance of the EQUIPMENT at any time during the Term of this Lease.

b. LESSEE's obligations pursuant to Section 7a above shall be deemed satisfied if LESSEE obtains and maintains in full force and effect throughout the Term hereof, at the sole cost and expense of LESSEE, a policy or policies of insurance issued by an insurer reasonably satisfactory to LESSOR, with premiums prepaid thereon, insuring LESSEE against the risks and hazards specified in Section 7a(i) hereof with minimum coverage of $100,000 for property damage ($500,000 for the death of or injury to any one person) and $2,000,000 for any one accident or occurrence.

c. LESSEE's failure to obtain the insurance coverage specified in Section 7b hereof shall not affect LESSEE's obligations under this lease. The loss of, damage to or destruction of the EQUIPMENT shall not terminate this Lease; nor to the extent that LESSOR is actually compensated by insurance paid for by LESSEE, as herein provided, relieve LESSEE from LESSEE's liability hereunder. Should LESSEE fail to so procure or maintain the insurance required under this Section 7, then LESSOR shall have the option, but not the obligation, to procure or maintain such insurance coverage for the account of LESSEE, and in that event, LESSEE shall reimburse LESSOR within seven (7) days after receipt of any invoice for any payment made therefore by LESSOR. Failure to so reimburse LESSOR shall be deemed a default under the terms of Section 10 hereof.

8. **TAXES AND OTHER CHARGES.** LESSEE shall pay, when due, any and all use taxes, personal property taxes and any and all other taxes which may be imposed by the ownership, possession, use or operation of the EQUIPMENT at any time during the Term hereof or which are levied against or measured by the gross receipts delivered to LESSOR as a result of the payment of rent by LESSEE hereunder.

9. **USE, OPERATION, ALTERATIONS AND ADDITIONS.** The EQUIPMENT shall at all times during the Term hereof be under the sole and absolute control of LESSEE, subject to the rights of LESSOR in the event of a default by LESSEE as provided herein. LESSEE shall comply

with any and all laws and regulations applicable to the operation of the EQUIPMENT, and shall be solely responsible for the payment of any and all fines or penalties resulting from its failure to comply therewith. LESSEE shall maintain the EQUIPMENT in good working order at the location identified on Exhibit A, attached hereto, at all times throughout the Term hereof or at any other location where the EQUIPMENT may have been relocated. LESSEE may from time to time add further parts or accessories to the EQUIPMENT, provided any such addition does not materially affect or materially impair the value of the EQUIPMENT. Any such additions shall become the property of the LESSOR.

10. **DEFAULT AND REMEDIES**

a. **DEFAULT.** The occurrence of any one of the following events shall constitute an event of default by LESSEE:

1. A default by LESSEE in the payment of any amount due hereunder as and when the same shall become due and the continuance of such default for a period of more than twenty (20) days following LESSEE's receipt of written notice of such default requiring the same to be cured; or

2. A default by LESSEE in the performance of any of its material obligations under this Lease and the continuance of such default for a period of more than thirty (30) days following LESSEE's receipt of written notice of such default requiring the same to be cured; provided, however, that if more than thirty (30) days are reasonably required in order to cure any such default, then no default shall be deemed to have occurred so long as the curing of such default is commenced by LESSEE within such thirty (30) day period and LESSEE thereafter diligently prosecutes the curing of such default to completion; or

3. Whenever an involuntary petition shall be filed against LESSEE under any bankruptcy or insolvency law or under the reorganization provisions of any law or like import, or a receiver of LESSEE of or for the property of LESSEE shall be appointed without the acquiescence of LESSEE and such situation under this section 10a-3 shall continue and remain undischarged or unstayed for an aggregate period of thirty (30) days (whether or not consecutive) or shall not be remedied by LESSEE within thirty (30) days; or

4. Whenever LESSEE shall make an assignment of the property of LESSEE for the benefit of creditors, shall file a voluntary petition under any bankruptcy or insolvency law, or whenever any court of competent jurisdiction shall approve a petition filed by LESSEE under the reorganization provisions of the United States Bankruptcy Act or under the provisions of any law or like import; or

5. The abandonment of the EQUIPMENT by LESSEE or the discontinuance of the operation of such EQUIPMENT by LESSEE; or

6. The failure to notify LESSOR of any relocation within sixty (60) days; or

7. The failure of LESSEE to remove within thirty (30) days any mechanics liens on the EQUIPMENT for additional work performed on such EQUIPMENT.

b. **REMEDIES.** Upon the occurrence of an event of default under Section 10a above which is continuing and remains uncured, then LESSOR may, at its option, during the continuance of such event of default:

1. Terminate this lease by written notice to LESSEE and recover from LESSEE damages incurred by reason of such default, including the reasonable costs of recovering the EQUIPMENT and reasonable attorney's fees relating thereto, in which event LESSEE shall immediately surrender the EQUIPMENT to LESSOR, and if LESSEE fails to do so, LESSOR may take possession of the EQUIPMENT; and in that event, any rights to the EQUIPMENT that LESSEE may possess pursuant to this lease shall automatically terminate; LESSEE shall have no further right to use of the EQUIPMENT; LESSOR may, without demand or legal process, retake and retain the EQUIPMENT; all rights of LESSEE in and to the location of the installed EQUIPMENT shall be deemed automatically assigned to LESSOR; and LESSEE shall have no further rights to such location whether such rights existed during the Term hereof or arose or were to arise following termination or expiration hereof; or

2. Without terminating this lease, enter upon the location thereof and take possession of the EQUIPMENT and thereupon relet the EQUIPMENT, as LESSEE's agent, at the best price obtainable by reasonable efforts, and in such event, LESSEE shall be liable to LESSOR for any deficiency between (i) the amount of rental due hereunder plus the reasonable cost to LESSOR of recovering and reletting the EQUIPMENT, including reasonable attorney's fees, and (ii) the rental received by LESSOR from such reletting.

11. **SURRENDER.** Except as set forth herein, upon the expiration or earlier termination of this lease, LESSEE shall return the EQUIPMENT and LOCATION to LESSOR in good operating condition, normal wear and tear excepted.

12. **RIGHT OF INSPECTION.** LESSOR shall have the right at all times throughout the Term hereof to inspect the EQUIPMENT whenever and wherever the same shall be located.

13. **WARRANTIES AND CLAIMS THEREUNDER.** LESSOR makes no warranty or representation, expressed or implied, with respect to the EQUIPMENT; provided, however, that the EQUIPMENT shall be subject to any standard warranty of the manufacturers of such EQUIPMENT or components thereof. LESSOR hereby appoints LESSEE as its agent and attorney-in-fact throughout the Term hereof to assert and enforce, at LESSEE's sole expense, any claims LESSOR may have as owner of the EQUIPMENT against any vendor, manufacturer or supplier with respect thereto.

14. **ASSIGNMENT.** LESSEE shall have the right to assign or sell any of its rights hereunder. LESSOR shall have the right to sell or assign its rights hereunder, including any or all of LESSOR's right, title and interest in and to the EQUIPMENT and location and the rent reserved herein. In the event of such assignment by LESSOR, the assignee thereof shall thereupon acquire all rights and remedies possessed by or available to LESSOR. Upon receiving proper notice of any such assignment, LESSEE shall thereafter make any and all rental payments as therein directed.

15. **RIGHT OF FIRST REFUSAL.** In the event LESSOR obtains an offer from a third party for the purchase of the EQUIPMENT, then LESSOR shall thereupon provide LESSEE with written notice of the proposed sale and terms thereof. LESSEE shall thereafter have thirty (30) days from the date of its receipt of such notice in which to give written notice to LESSOR of its election to purchase the EQUIPMENT upon the same terms and conditions as the third-party offer. If LESSOR does not

receive written notice of such election from LESSEE within such thirty (30) day period, then LESSOR shall be free to sell the EQUIPMENT pursuant to such third-party offer. Should LESSEE notify LESSOR of its election to purchase, then LESSEE shall have one hundred eighty (180)days to close sale from the date of the original notice.

16. **OPTION TO SELL AGREEMENT.** Should LESSOR choose to sell the equipment to the LESSEE prior to or upon the end of the Term of the Lease, then LESSOR shall execute the Option To Sell Agreement attached hereto and by reference made a part hereof as Exhibit B. The terms and conditions of the Option to Sell Agreement shall govern the purchase by the LESSEE of the EQUIPMENT. LESSEE shall have one hundred eighty (180) days from the date of receipt of the original written notice to purchase said EQUIPMENT.

17. **PERSONAL PROPERTY:** The EQUIPMENT is and at all times throughout the Term hereof shall remain personal property, even if all or any portion of the EQUIPMENT becomes affixed or attached in any matter whatsoever to any real property.

18. **ACKNOWLEDGMENT OF DISCRETION.** LESSOR represents and warrants that (a) LESSOR is free to enter into agreements with parties other than LESSEE for the economic exploitation of the EQUIPMENT; (b) LESSOR was not required to enter into this lease as a condition to purchasing the EQUIPMENT; and (c) LESSOR has freely and voluntarily entered into this lease and acknowledges that LESSOR is not entering into or executing this lease in reliance upon any promise, representation or warranty not contained herein.

19. **NOTICES.** Any and all notices required or permitted hereunder shall be notarized in writing and sent to the intended recipient, addressed to its address set forth below, either by registered or certified mail, return receipt requested, postage prepaid, overnite delivery service, or personal delivery. Each such notarized notice shall be effective (a) if given by mail, as of three (3) business days after such notice or communication is deposited in the United States Mail; (b); if sent for overnite delivery via Federal Express or other reputable national overnite delivery service, one (1) business day after such notice or delivery is entrusted to such service, with recipient signature required; or (c) if personally delivered, when delivered at the address of the intended recipient. Any party may change the address to which notices or other communications hereunder are to be delivered by giving the other party notice in the manner set forth herein. Any notice required to be made within a stated period of time shall be considered timely mailed if deposited before midnight of the last day of the stated period.

20. **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

21. **SPECIFIC PERFORMANCE.** Each party acknowledges and agrees that the other party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each party agrees that the other party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to specifically enforce this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having jurisdiction over the parties and the matter, in addition to any other remedy to which it may be entitled, at law or in equity.

22. **DISPUTE RESOLUTION CONTRACT PROVISION.**

a. **DISPUTE.** Any dispute, controversy, or claim of whatever nature (except an interlocutory hearing for an action for a temporary restraining order, preliminary injunction, or similar

equitable relief) asserted by any party against another party arising out of, or relating to, this Agreement or the breach hereof, shall be settled by arbitration, if requested, by any party pursuant to this Section 21. The arbitration shall be conducted by one (1) arbitrator, who shall be appointed pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The arbitration shall be held in Atlanta, Georgia, and shall be conducted in accordance with the Commercial Arbitration Rules of the AAA, except that the rules set forth in this Section 21 shall govern such arbitration to the extent that they conflict with the rules of the AAA.

b. **NOTICE.** Upon written notice by a party to another party of a request for arbitration hereunder, the parties shall use their best efforts to cause the arbitration to be conducted in an expeditious manner, with such arbitration to be completed within sixty (60) days after selection of an arbitrator. In the arbitration, Georgia law shall govern, except to the extent those laws conflict with the Commercial Arbitration Rules of the AAA and the provisions of this Section 21. There shall be no discovery except as the arbitrator shall permit following determination by the arbitrator that the party seeking such discovery has a substantial demonstrable need All other procedural matters shall be within the discretion of the arbitrator. In the event a party fails to comply with the procedures in any arbitration in any manner determined by the arbitrator, the arbitrator shall fix a reasonable period of time for compliance and, if the party fails to comply within such period, a remedy deemed just by the arbitrator, including, without limitation, an award of default, may be imposed.

23. **MISCELLANEOUS.** This Agreement shall be binding upon the parties hereto and their heirs, executors, administrators, successors and assigns. Wherever possible each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision hereof shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Agreement. No delay or failure on the part of either party in the exercise of any right or remedy hereunder shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise by either party of any right or remedy preclude any other right or remedy. This Agreement and the documents referred to herein constitutes the entire agreement between the parties concerning the subject matter hereof, and any other agreements or understandings of any nature with respect to such matters are hereby superseded and revoked. This Agreement shall not be modified or amended except in writing signed by both parties. This Agreement may be executed and delivered in any number of counterparts, including facsimile counterparts, all of which when executed and delivered shall have the force and effect of an original. In construing this Agreement, feminine or neuter pronouns shall be substituted for those masculine in form and vice versa in any place where the context so requires, and plural terms shall be substituted for singular and singular for plural in any place where the context so requires. The headings in this Agreement are inserted for convenience only and are not a part of the Agreement.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals as of the date first above written.

Check one [X] Individual [ ] Partnership [ ] Corporation [ ] Self-Directed IRA [ ] Trust
[ ] Joint Tenancy with Rights of Survivorship [ ] Other:

LESSEE: ETS Payphones, Inc.	**LESSOR:** THOMASINA MARSELLA
By: Charles P. Edwards	**By:** X Thomasina Marsella
Title: CEO	**Title:** Individual
Address: 561 Thornton Road, Suite K Lithia Springs, GA 30122	**Address:** 10 PAOLINO STREET PROVIDENCE, RI 02909
Telephone Number: (770) 819-1600	**Telephone Number:** (401) 421-6438
Date: December 15, 1999	**Date:** 2/9/2000

Lease: 10423
Date: 01/24/00

THE EQUIPMENT
(Exhibit "A")

The equipment described herein constitutes three (3) units of operating payphone stations.

Unit 1: Location: BATES MARKET & DELI — Serial #: 32268
3145 HWY 61 EAST
LUTRELL, TN 37779
Phone #: 423-992-9753

Unit 2: Location: FRIENDLY INN #2 — Serial #: 37125
700 OLD FEDERAL HWY
HALLANDALE, FL 33009
Phone #: 954-458-9044

Unit 3: Location: LAKESIDE LAUNDRY — Serial #: 37120
016 W HALLANDALE BEACH BLVD
HALLANDALE, FL 33009
Phone #: 954-455-8912

Option To Sell AGREEMENT

(Exhibit B to Telephone Lease Agreement)

THIS AGREEMENT is made and entered into as of the 15th day of December, 1999, by and between THOMASINA MARSELLA (Individual) (hereinafter referred to as "LESSOR"), and ETS Payphones, Inc., a Georgia Corporation (hereinafter referred to as "LESSEE").

THE PARTIES HERETO ACKNOWLEDGE THAT THIS AGREEMENT INURES TO THE BENEFIT OF LESSOR, AND THAT LESSOR RETAINS SOLE AND COMPLETE DISCRETION IN DETERMINING WHETHER OR NOT TO EXERCISE THE REQUIREMENTS HEREINAFTER SET FORTH.

WITNESSETH:

WHEREAS LESSOR is the owner of three (3) unit(s) of pay telephone Equipment (the "Equipment") pursuant to that certain PURCHASE AGREEMENT dated October 26, 1999, as reflected on Invoice Number 6252 related thereto; and

WHEREAS, LESSOR and LESSEE have entered into that certain Lease Agreement (the "Lease Agreement") dated December 15, 1999 bearing Lease number 10423, pursuant to which LESSEE has LEASED the Equipment from LESSOR; and

WHEREAS, pursuant to the Lease Agreement, LESSOR is entitled to require LESSEE to purchase the Equipment prior to or upon termination of the LEASE AGREEMENT; and

WHEREAS, the parties have therefore determined that it would be appropriate and in their mutual best interests to enter into this Option to Sell Agreement in order to evidence the rights of LESSOR and the obligations of LESSEE for the sale and purchase of said Equipment; and

WHEREAS, certain terms used herein without definition shall have the meanings ascribed thereto in the Lease Agreement, and this Option to Sell Agreement is made subject to the terms and conditions of said Lease Agreement, all of which are incorporated herein and by reference made a part hereof;

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained and for other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, the parties agree as follows:

1. **Agreement to Purchase Equipment.** Subject to the terms and conditions set forth herein, LESSEE agrees to purchase the Equipment from LESSOR if LESSOR elects to sell such Equipment. If LESSOR desires that LESSEE purchase the Equipment prior to or upon expiration of the Lease Agreement, then LESSOR shall give written notice to LESSEE of such requirement. LESSEE shall have 180 days from the date of receipt of written notice to purchase equipment should LESSOR wish to sell.

2. **Purchase Price.** The price to be paid by LESSEE to LESSOR for such Equipment (the "Purchase Price") shall be Seven Thousand and no/100ths Dollars ($7,000.00) per unit. The Purchase Price shall be payable by the LESSEE's delivery of a check for the aggregate amount thereof to LESSOR at LESSOR's address set forth herein.

3. **Termination.** This Option to Sell Agreement shall terminate and be void upon the earlier of: (i) termination of the Lease Agreement; or (ii) the expiration of one hundred and twenty (120) months from execution hereof.

4. **Notices.** All notices required or permitted hereunder shall be notarized , in writing and may be delivered by hand, by nationally recognized private courier, or by United States mail. Notices delivered by mail shall be deemed given three (3) business days after being deposited in the United States mail, postage prepaid, registered or certified mail, return receipt requested. Notarized notices delivered by hand, or by nationally recognized private courier shall be deemed given on the day of receipt(if such day is a business day or, if such day is not a business day, the next succeeding business day). All notices shall be addressed as follows:

If to LESSOR: THOMASINA MARSELLA (Individual)
10 PAOLINO STREET
PROVIDENCE, RI 02909

If to LESSEE: ETS Payphones, Inc.
561 Thornton Road, Suite K
Lithia Springs, Georgia 30122

and/or to such other respective addresses as may be designated by notice given in accordance with the provisions of this Section 4.

5. **Governing Law.** This Option to Sell Agreement shall be governed by and construed in accordance with the laws of the state of Georgia .

6. **Construction.** The parties have participated jointly in the negotiation of this Option to Sell Agreement. In the event an ambiguity or question of intent or interpretation arises, this Option to Sell Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Option to Sell Agreement. Any reference to any federal, state, local or foreign stature or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

7. **Dispute Resolution Contract Provision.**

a. **Dispute.** Any dispute, controversy, or claim of whatever nature (except an interlocutory hearing for an action for a temporary restraining order , preliminary injunction, or similar equitable relief) asserted by any party against another party arising out of, or relating to, this Option to Sell Agreement or the breach hereof, shall be settled by arbitration, if requested, by any party pursuant to this Section 7. The arbitration shall be conducted by one (1) arbitrator, who shall be appointed pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The arbitration shall be held in Atlanta, Georgia, and shall be conducted in accordance with the Commercial Arbitration Rules of the AAA,, except that the rules set forth in this Section 7 shall govern such arbitration to the extent that they conflict with the rules of the AAA.

b. **Notice.** Upon written notice by a party to another party of a request by arbitration hereunder, the parties shall use their best efforts to cause the arbitration to be conducted in an expeditious manner, with such arbitration to be completed within sixty (60) days after selection of an arbitrator. In the arbitration, Georgia law shall govern, except to the extent those laws conflict with the Commercial Arbitration Rules

. and the provisions of this Section 7. There shall be no discovery except as the arbitrator shall permit following determination by the arbitrator that the party seeking such discovery has a substantial demonstrable need. All other procedural matters shall be within the discretion of the arbitrator. In the event a party fails to comply with the procedures in any arbitration in any manner determined by the arbitrator, the arbitrator shall fix a reasonable period of time for compliance and, if the party fails to comply within such period, a remedy deemed just by the arbitrator, including, without limitation, an award of default, may be imposed.

8. **MISCELLANEOUS.** This Option to Sell Agreement shall be binding upon the parties hereto and their heirs, executors, administrators, successors and assigns. Wherever possible each provision of this Option to Sell Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision hereof shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Option to Sell Agreement. No delay or failure on the part of either party in the exercise of any right or remedy hereunder shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise by either party of any right or remedy preclude any other right or remedy. This Option to Sell Agreement and the documents referred to herein constitutes the entire agreement between the parties concerning the subject matter hereof, and any other agreements or understandings of any nature with respect to such matters are hereby superseded and revoked. This Option to sell Agreement shall not be modified or amended except in writing signed by both parties. This Option to Sell Agreement may be executed and delivered in any number of counterparts, including facsimile counterparts, all of which when executed and delivered shall have the force and effect of an original. In construing this Option to Sell Agreement, feminine or neuter pronouns shall be substituted for those masculine in form and vice versa in any place where the context so requires, and plural terms shall be substituted for singular and singular for plural in any place where the context so requires. The headings in this Option to Sell Agreement are inserted for convenience only and are not a part of the Option to Sell Agreement.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals as of the date first above written.

LESSEE: ETS Payphones, Inc.	**LESSOR:** THOMASINA MARSELLA
By: Charles E. Edwards	By: X Thomasina Marsella
Charles E. Edwards	
CEO	Individual

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

No. 1:00-CV-2532

SECURITIES AND EXCHANGE COMMISSION, PLAINTIFF

v.

ETS PAYPHONES, INC., AND CHARLES E. EDWARDS,
DEFENDANTS

DECLARATION OF SHELDON E. FRIEDMAN

1.

I, SHELDON E. FRIEDMAN, am over the age of eighteen and am competent in all respects to make this Declaration. This Declaration is made and presented in support of the "Opposition of Defendant Charles E. Edwards To Plaintiff's Application for Preliminary Injunction, Asset Freeze, and Other Equitable Relief," submitted in the above-referenced action.

2.

I am an attorney and named partner in the law firm of Friedman, Dever & Merlin, LLC, located at Suite 2150, Tower Place 100, 3340 Peachtree Road, NE, Atlanta, Georgia 30326-1084. I have been special counsel to ETS Payphones, Inc. ("ETS") since 1995.

3.

In September of 1995, a company related to ETS received a letter from the SEC. A copy is attached as *Exhibit 1.* Around September of 1995, Charles Edwards and I met with SEC attorney Larry Grant, out of the SEC's Atlanta office, regarding the business of ETS and Charles Edwards. As a result of research performed at the time, I presented Mr. Grant with what I believed to be the law as it related to the issue of whether ETS was engaged in the sale of a "security." Although I believe that the law at the time regarding this issue was in conflict, I recall specifically discussing with Mr. Grant my strong belief that ETS was not engaged in the sale of securities. I also provided Mr. Grant with documents provided by ETS to potential customers at the time.

4.

During the meeting, Mr. Grant suggested to Mr. Edwards and myself that ETS could avoid problems with the securities laws if it would separate the operating and marketing aspects of its business and perform one or the other. Following these suggestions, ETS restructured its operations to remove itself from the marketing aspect of its business.

5.

Following our meeting with the SEC in 1995, I did not hear from the SEC again with regard to either ETS or Mr. Edwards.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 11th day of October, 2000.

/s/ SHELDON E. FRIEDMAN
SHELDON E. FRIEDMAN

[SEAL]

United States
Securities and Exchange Commission
Atlanta District Office
3475 Lenox Road, NE
Suite 1000
Atlanta, Georgia 30326-1232

September 25, 1995

Beverly Slater
Georgia Risk Management
4290 Bells Ferry Road
Suite 106
Kennesaw, GA 30144

Re: Inter-Net, Inc.

Dear Ms. Slater:

In accordance with our telephone conversation, enclosed is SEC Form 1662 required to be given to persons requested to furnish information to the Commission.

As I state, this office is conducting an informal non-public inquiry to determine if there have been any violations of the Federal securities laws in connection with the offer and sale of "business opportunities" of Inter-Net, Inc. As discussed, I would appreciate your submitting for review the materials you are providing persons in connection with business opportunities being offered by Inter-Net, Inc. through your firm. Please

include any information concerning the leaseback and management of the telephone equipment.

The fact that we have requested such information should not be construed as a reflection upon the character or reputation of the persons or companies involved, nor as an expression of opinion on the part of the Commission or its staff that any violations have occurred.

Thank you for you assistance and cooperation. If you have any questions, please contact me at (404) 842-7660.

Sincerely,

/s/ JOSEPH L. GRANT
JOSEPH L. GRANT
District Counsel

Enclosure:

SEC Form 1662